SHINSEI BANK

RIGHT CHOICES

Annual Report 2008

For the fiscal year ended March 31, 2008

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 ¥11.5 trillion ($115 billion) on a consolidated basis (as of March 2008) and a network of 39 outlets that includes 35 Shinsei Financial Centers, 2 Platinum Centers and 2 BankSpots 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.

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.

An organization faces many choices as it executes its business strategy. During challenging times, some of these choices may be very difficult to make; however, if we are to drive a successful strategy, we must ensure that we make the right choices across all of our businesses.

Fiscal year 2007 was another challenging year for the financial sector. Throughout the year, we were confronted with uncertain and volatile markets. We made some important strategic decisions to position ourselves for sustainable growth. We focused

Aiming for the RIGHT CHOICES

closely on the needs of our customers, who remain the foundation of our business. By developing and delivering innovative products, services and solutions, we provided them with the right choices.

To succeed in a challenging and increasingly competitive environment and deliver sustainable value for all our stakeholders, we worked this year on creating a single "Brand Idea" that unites all of our employees through a shared purpose and commitment to our customers. The theme of this Annual Report, "Right Choices," is based on this Brand Idea, which we believe will further differentiate us as the financial services provider of choice.

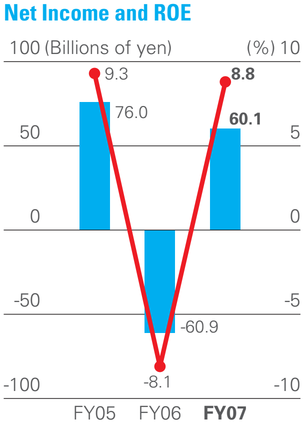
FINANCIAL HIGHLIGHTS

Shinsei Bank, Limited, and Consolidated Subsidiaries
For the fiscal years ended March 31, 2006, 2007 and 2008[1]

	2006	2007	2008
		Billions of yen	
For the fiscal year:			
Net interest income	¥ 82.2	¥ 95.4	**¥ 137.7**
Net fees and commissions	45.4	46.4	**40.8**
Net trading income	27.5	17.8	**9.0**
Net other business income	118.0	96.6	**74.9**
Total revenue	273.4	256.3	**262.6**
Net income (loss)	76.0	(60.9)	**60.1**
Cash basis net income[2]	101.9	35.3	**71.3**
Balances at fiscal year-end:			
Loans and bills discounted	4,087.5	5,146.3	**5,622.2**
Total assets	9,405.0	10,837.6	**11,525.7**
Deposits and negotiable certificates of deposit	4,071.7	5,420.9	**5,806.6**
Debentures	1,018.9	703.2	**662.4**
Total liabilities	8,287.8	9,904.4	**10,560.5**
Total equity[3]	—	933.2	**965.2**
Total liabilities and equity	9,405.0	10,837.6	**11,525.7**
		Yen	
Per share data:			
Common equity[3]	¥ 380.20	¥ 308.60	**¥ 364.35**
Fully diluted equity[3][4]	421.62	355.09	**364.35**
Basic net income (loss)	53.16	(45.92)	**38.98**
Diluted net income	37.75	—	**32.44**
Dividends	2.96	2.66	**2.94**
Cash basis per share data:			
Basic net income	¥ 72.16	¥ 23.82	**¥ 46.31**
Diluted net income	50.55	18.41	**38.50**
		%	
Ratios:			
Return on assets[5]	0.8	(0.6)	**0.5**
Return on equity (fully diluted)[3][6]	9.3	(8.1)	**8.8**
Tier I capital ratio	10.3	8.1	**7.4**
Total capital adequacy ratio	15.5	13.1	**11.7**

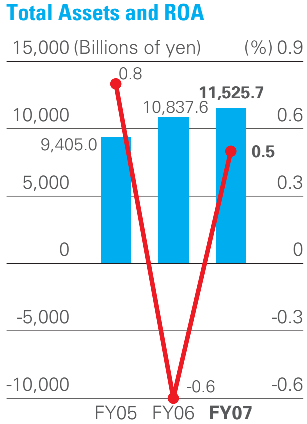
Notes:
(1) Since all yen figures have been truncated rather than rounded, the totals do not necessarily equal the sum of the individual amounts.
(2) Cash basis net income is calculated by excluding impairment and amortization of goodwill and other intangible assets, net of tax benefit, from net income (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.

Net Income and ROE



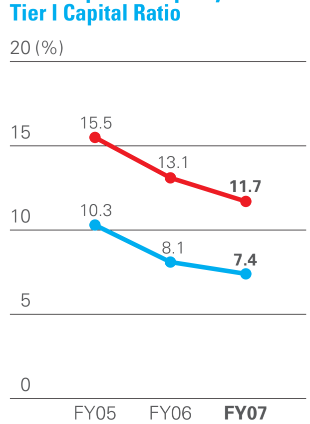
Net Income (Left)
ROE (Right)

Total Assets and ROA



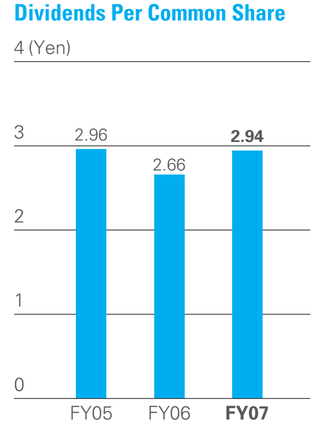
Total Assets (Left)
ROA (Right)

Total Capital Adequacy Ratio and Tier I Capital Ratio



Total Capital Adequacy Ratio
Tier I Capital Ratio

Dividends Per Common Share



CONTENTS

TO OUR SHAREHOLDERS, CUSTOMERS AND EMPLOYEES

Thierry Porté, President and Chief Executive Officer

Fiscal year 2007 was another year dominated by dramatic developments in world financial markets. The U.S. subprime mortgage crisis has had a significant impact on global stock markets and economies, including Japan's, and the shock waves continue to reverberate through the financial world. Fortunately, the Japanese economy, where the majority of Shinsei Bank's business is concentrated, has weathered the storm relatively well.

Fiscal Year 2007 Highlights

Fiscal year 2007 was marked by successes, challenges and some disappointments for Shinsei Bank. While we were able to return to profitability, fiscal year 2007 was another tough year. Shinsei Bank reported consolidated net income of ¥60.1 billion in the fiscal year ended March 31, 2008 ("fiscal year 2007"), compared to a net loss of ¥60.9 billion in fiscal year 2006. In addition, we recorded a consolidated cash basis net income of ¥71.3 billion in fiscal year 2007 versus ¥35.3 billion in the previous fiscal year. We also paid a dividend of ¥2.94 in fiscal year 2007, compared to a dividend of ¥2.66 in fiscal year 2006. In terms of profitability, we achieved an ROE (fully diluted) of 8.8% and an ROA of 0.5%. With regard to our financial stability, we were able to maintain Tier I capital at 7.37%

and a total capital adequacy ratio of 11.74%. While we cannot be satisfied with these results, we believe we have made the right choices to position our business for long-term growth as we focus on strengthening our balance sheet and developing our businesses.

Loan balances and net interest income continued to grow in all businesses. Our consumer finance businesses, including APLUS Co., Ltd. (APLUS) and Shinki Co., Ltd. (Shinki), reaped the benefits of business restructuring and were able to return to profitability. However, dislocation in the credit markets negatively affected our results, as we were forced to recognize mark-downs and reserves of ¥29.1 billion related to our U.S. residential mortgage portfolio. Furthermore, we decided to delay the recognition of sales involving large transactions overseas, which we originally expected to realize this fiscal year, due to the prevailing market environment.

Fiscal year 2007 was also the year that we decided to sell our headquarters. Like many of the world's largest corporations and financial institutions, Shinsei believes that ownership of a headquarters building is not the most efficient way to deploy its capital. The Shinsei Bank Group has expanded in recent years, and as a result our current headquarters building no longer meets the needs of the Bank's staff and its various businesses. We plan to significantly improve efficiency by securing a location that is closely aligned with our current strategic priorities, which include organizing the Bank and its subsidiaries to provide optimal service to our customers.

We also saw a change in our shareholder structure. J.C. Flowers & Co. LLC and affiliates became our largest shareholder with 32.6% of the common shares of Shinsei Bank after the completion of a tender offer bid for existing shares and a third-party allotment of shares in February 2008. Furthermore, the Japanese government became our second-largest shareholder with a 23.9% stake in Shinsei after the conversion of preferred shares in August 2007 and March 2008.

Overview of Business Pillars

Up to the end of fiscal year 2007, Shinsei Bank's business model has been based on three strategic business pillars: Institutional Banking, Consumer and Commercial Finance and Retail Banking, each with unique business challenges and opportunities.

Institutional Banking

We continued to see a highly competitive business environment in our Institutional Banking business in fiscal year 2007. That is why it is crucial for us to stay focused on our customers. Our business philosophy is built around the idea of working *better together* to come up with winning solutions to meet the rapidly changing needs of our customers.

In particular, we faced some challenges in our securitization operations, due to the turmoil in the U.S. residential mortgage market. In addition, the performance of our capital markets-related operations, both at the Bank and at our subsidiary, Shinsei Securities Co., Ltd., did not meet our expectations.

However, our loan, real estate non-recourse finance, credit trading and principal investment operations performed steadily, and the high-growth areas of asset management and advisory operations recorded solid results.

We posted a good performance in corporate lending while maintaining the profitability and quality of our assets by meeting the funding demands of our new and existing corporate customers. In order to better provide highly specialized solutions to our customers, we implemented an organizational reform in December 2007 to categorize our corporate relationship managers by industry sectors.

We have strived to achieve efficient asset management and to secure profits in our real estate non-recourse finance operations by being highly selective, taking into account credit concentration risks and ensuring an appropriate level of risk and return, in addition to securitizing non-recourse loans.

Our credit trading operations performed steadily, as we actively pursued the investment in and collection of distressed assets both in Japanese and overseas markets, where real estate prices were rising.

In our principal investment operations, we formed a business partnership with Japan Asia Investment Co., Ltd. and subscribed to their private placement of new shares in August 2007, and established a private equity fund with the Development Bank of Japan, to be managed by our affiliate's subsidiary, in February 2008. By taking advantage of such strategic business alliances, we have been engaging in investments for future growth.

In our asset management operations, we formed a business cooperation agreement with a leading Indian investment firm, UTI Asset Management Company Pvt. Ltd., to offer products managed by the UTI Group in India for our customers in Japan. In August 2007, we also formed a business cooperation agreement with a subsidiary of UTI and established a joint venture company in Singapore to provide asset management services and financial products in Southeast Asia.

Consumer and Commercial Finance

The business environment surrounding Consumer and Commercial Finance continued to present challenges in fiscal year 2007. Primarily, this was due to the lowering of maximum lending rates following the revision of consumer lending laws and the implementation of lending limits for each borrower. The reimbursement of excess interest payments, another result of the legal changes, was also a burden. Despite this, we were able to return to profitability, marking a significant improvement over last year's performance. We are striving to further improve our profitability and competitive edge by being *game changers* in the industry, as we focus on helping customers run their businesses smoothly. We are further strengthening our sales force, streamlining our business and rationalizing costs, as well as promoting management efficiency by utilizing the Bank's know-how in IT and risk management.

APLUS was able to return to profitability this year after implementing some tough measures such as downsizing its work force. APLUS is focusing on attracting quality customers and working to achieve its medium-term strategy of building the next generation "*shinpan*," or installment sales credit company. This means providing competitive financial services backed by a high level of expertise in credit assessment and collection and Shinsei's unique, low-cost IT infrastructure. In March 2008, the Bank subscribed to ¥50 billion in preferred shares issued by APLUS through a third-party allotment to strengthen APLUS' capital base.

We made Shinki a consolidated subsidiary in the second half of fiscal year 2007, when it also returned to profitability. Shinki complements the services offered by APLUS and we expect further synergy in our consumer finance operations, as we work to meet the ever-diversifying needs of our customers.

Retail Banking

Retail Banking had another disappointing year from a profitability point of view. Revenues from other products did not increase fast enough to cover the decline in revenues from structured deposits. We are committed to making these operations profitable in fiscal year 2008.

There were, however, a number of noteworthy successes. First, *PowerFlex* comprehensive accounts continued to record strong growth and have surpassed 2.2 million retail accounts. Although the pace of product sales has declined with the implementation of the Financial Instruments and Exchange Law in September 2007, the balance of assets under management from individuals now exceeds five trillion yen for the first time. This includes a balance of about four trillion yen in retail deposits. Our retail bank is the funding engine of the Shinsei Bank Group and provides a stable, liquid and low-cost funding base. Although we have seen a slower pace of growth for the Japanese real estate market, our housing loan balance has surpassed ¥800 billion, as our value proposition of no "guarantee fees" and no "early repayment fees" have proved popular.

The Bank started offering an improved *Shinsei Platinum Services* in July 2007 to customers who meet certain requirements. Eligible customers can enjoy better interest rates on yen time deposits, make an overseas remittance at no charge and pay no fees or charges for the first consultation with a financial planner. With a further emphasis on investment management consultation services, the Bank aims to be the "Best Money Advisor" in Japan by *exceeding expectations*.

Building a Sustainable Future

During the past eight years, we have not only focused on restoring Shinsei Bank to financial health, but have also worked hard to build an innovative and leading Japanese financial institution. We have made great efforts to establish and instill a unique identity and culture to realize our aspirations of becoming a truly competitive organization that delivers sustainable value to our stakeholders. In fiscal year 2007, we made significant strides to further align this culture with our strategic imperatives based on a clear vision and values, highly diverse and engaged workforce and a strong brand.

The Shinsei brand embodies the promise of partnership that we make to our customers: the promise of ease and convenience, innovative products and services, and trust and integrity. Delivering on this promise is what will make us unique amongst our competitors, as customers recognize and appreciate that we are "changing the game" in Japan's financial services industry.

During the past year, a Group-wide project team has collaborated on creating and embedding a single "Brand Idea" that can be applied across the Group and provides a common statement of purpose to all employees, regardless of their organization. With all employees united under this single Brand Idea, our belief is that Shinsei Bank can further differentiate itself and occupy a unique position in this competitive market.

Initiatives for Fiscal Year 2008

We do not expect fiscal year 2008 to be without challenges, but we believe we have made the right choices to position our business for future growth by strategically focusing our business around the customer. Our goal is a bold one —to become the fastest-growing, highest-returning financial services firm in Japan by creating value for our customers through the provision of the right solutions to meet their ever-evolving needs.

To achieve this goal, we have implemented a three-pronged approach. First, we have decided to modify our current strategy from a three-pillar to a two-pillar strategy to more effectively utilize the Shinsei Bank Group's resources and to provide a broader range of products and services to our institutional and individual customers.

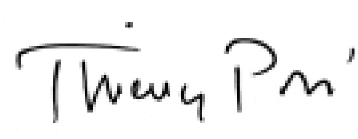
Second, we are now working on optimizing our operations including cost rationalization and introducing "Shareholder Value Added (SVA)" as one of the measures to better allocate our capital.

Third, we will continue to focus on expanding our quality customer base organically while actively pursuing M&A opportunities to grow our business in the right areas.

We will utilize these strategies while leveraging the Bank's strengths of best-in-class corporate governance, compliance, risk management and IT in our unwavering commitment to provide our customers with the right choices.

In conclusion, I would like to wish a farewell to Junji Sugiyama, who served as Chairman, and Lucio A. Noto, one of our outside directors, and to thank them for their dedication, advice and contribution over the years. I would also like to thank our shareholders, customers and employees for your support and guidance in fiscal year 2007 and look forward to working with you all in fiscal year 2008.

June 20, 2008



Thierry Porté
President and CEO

QUESTIONS & ANSWERS

Q What has changed for Shinsei after J.C. Flowers & Co. LLC and affiliates became your largest shareholder?

A In November 2007, Shinsei announced plans to deepen ties with key new and existing shareholders and to raise new capital to enhance its financial stability. This included a tender offer bid for 358.4 million common shares outstanding and a third-party allotment of 117.6 million new common shares of Shinsei both at ¥425 per share to the group of investors led by J.C. Flowers & Co. LLC and affiliates. Both transactions were concluded by February 2008 and marked the successful completion of a capital-raising initiative at a premium to the share price at that time, despite it being a very difficult time in the markets. After the completion of the third-party allotment and tender offer and considering the number of shares held prior to this, this group of investors now holds 32.6% of our outstanding common shares, making them the largest shareholder.

Regarding changes for Shinsei, this symbolizes a vote of confidence by our key investors and positions us to put Shinsei Bank on a new growth trajectory. The new capital will allow Shinsei to make active investments in strategically important areas across its Institutional and Individual pillars with a primary focus on Japan. This may also include acquisitions to allow us to expand the scale of our business in certain areas while considering synergies with our existing operations. By having internationally renowned investors committed to Shinsei Bank, a business alliance and/or an enhancement to our product line is also another possibility. These factors are expected to have a positive impact on our profitability and ultimately on our corporate value.

Q Considering that the Japanese government is now your second largest shareholder, could you let us know what your policy is on the repayment of public funds?

A Prior to its nationalization in October 1998, Shinsei Bank's predecessor, the Long Term Credit Bank (LTCB), received an injection of public funds of ¥96.9 billion, after capital reduction without compensation of 74,528,000 Class-A preferred shares issued on March 31, 1998. Furthermore, upon its establishment, Shinsei Bank received ¥240 billion through the issuance of 600,000,000 Class-B preferred shares issued on April 1, 2000. As a result, the Bank, as well as the LTCB, has received a total of ¥336.9 billion in public funds. On July 31, 2006, the Japanese government converted 300,000,000 Class-B preferred shares, or half of the Class-B preferred shares initially issued, into 200,033,338 common shares and sold them at ¥753 per share on August 17, 2006. From this transaction, the government collected ¥150.6 billion for half, or ¥120 billion, of the Class-B preferred shares initially issued, resulting in a partial repayment of public money. Later, the remaining 300,000,000 Class-B preferred shares held by the Japanese government were mandatorily converted into 200,000,000 common shares on August 1, 2007. Furthermore, the Japanese government converted the total issued 74,528,000 Class-A preferred shares that it held into 269,128,888 common shares on March 31, 2008.

As a result, the Japanese government now holds 469,128,888 common shares, or 23.9% of the 1,963,910,456 Shinsei Bank common shares outstanding (excluding treasury shares), as at the end of March 2008, making it the second largest shareholder.

Shinsei Bank continues to focus on delivering returns to all our shareholders. As a bank receiving public funds, we look to execute the revitalization plan agreed upon with the Japanese government, and we will consult the government in our quest for swift repayment of public funds.

Q **Why were you only able to achieve ¥60.1 billion in consolidated net income in fiscal year 2007 considering that the sale of your headquarters building contributed ¥56 billion to net income?**

A On March 13, 2008 Shinsei Bank announced that the sale of its headquarters building would contribute about ¥56 billion to net income. At that time, Shinsei Bank also revised its net income forecast from ¥50 billion to ¥65 billion and later on May 8, 2008 announced that it had changed its forecast for net income to ¥60.1 billion. Subsequently, we announced a net income of ¥60.1 billion on May 14, 2008. There are primarily four reasons why we were only able to achieve about ¥4 billion net income apart from the ¥56 billion recognized on the sale of our headquarters building.

First, due to the market turmoil caused by the problems surrounding the U.S. residential mortgage market, Shinsei was required to make mark-downs and reserves related to this market that were higher than originally anticipated.

Second, we have delayed the recognition of sales involving large transactions overseas, which we originally expected to realize this fiscal year, to sometime in the future due to the prevailing market environment.

Third, we booked additional reserves associated with a small number of business loans in Japan and in Europe.

Fourth, there were additional costs, including branch write-offs in the Retail Banking operations, as well as general corporate software and hardware write-offs.

For the fiscal year ending March 31, 2009 we are forecasting a net income of ¥62.0 billion.

Q Please give us the details of your exposure to the U.S. residential mortgage market.

A The U.S. subprime mortgage crisis had a substantial direct impact upon many global financial institutions in the fiscal year ended March 31, 2008. Shinsei did not escape this turmoil, despite our relatively limited exposure. While only a small portion of our operations are overseas, we originally invested in the U.S. residential mortgage market to diversify our earnings stream in 2003. The continued volatility and lack of liquidity in the market prompted S&P to downgrade (including multi-notch downgrades) securities in October 2007 of which the status of a portion of our exposure immediately changed from investment grade to non-investment grade, necessitating significant mark-downs and reserves of our portfolio in fiscal year 2007. We have continued to closely monitor our exposure and believe that we have taken prudent actions in light of the prevailing market environment.

Overall, we incurred $157 million (¥15.6 billion) of mark-downs and $134 million (¥13.4 billion) of reserves for a total of $291 million (¥29.1 billion) related to our U.S. residential mortgage portfolio in fiscal year 2007.

Shinsei Bank's net exposure to the U.S. residential mortgage market was $280.8 million (¥28.0 billion), or less than 0.3% of the Bank's total assets of $115 billion (¥11.5 trillion), as of March 31, 2008.

Q Considering that you have a relatively high exposure to domestic real estate, what is your view on the real estate market in Japan going forward?

A Nationwide land prices have gone up for the second consecutive year in 2007 after falling for 15 years in a row, according to data from the Ministry of Land, Infrastructure and Transport. Land prices were pushed up in the first half of 2007 due to soaring demand for condominiums and office buildings, and the recovering Japanese economy. However, in the latter half of 2007, the pace of growth became sluggish amid the implementation of the Building Standards Law that went into effect in June 2007, as well as growing uncertainties about the economy and financial markets triggered by the U.S. subprime mortgage crisis later in August 2007. There has been the emergence of a bipolarizing trend in land prices between city centers (Tokyo, Osaka and Nagoya), which have increased for the third year in a row, and regional areas, which have continued to slide. While commercial real estate prices were up more than 10% in 21 out of 23 wards and residential real estate prices were up more than 10% in 14 out of 23 wards in Tokyo in 2007, the overall rate of growth has slowed compared to 2006. In 2006, three wards recorded an increase of over 20% in both commercial and residential real estate prices, but there were no such ward increases in 2007.

Shinsei's largest exposure to the real estate market in Japan is related to our non-recourse lending business, with ¥974.8 billion in loans and bonds outstanding at the end of March 2008. Since our launch in 2000 as a pioneer in the market, we have successfully grown our non-recourse lending business and have shifted our focus from a stock to a flow business. Shinsei Bank is one of the few players in the market that can take advantage of the entire value chain from origination, including syndication, to securitization, distribution and ultimately servicing capabilities. For example, in fiscal year 2007, we were able to securitize two non-recourse loan pools in the amount of ¥165.2 billion into commercial mortgage-backed securities and sell off to the market. Recently we have seen opportunities in the Japanese market as international players have reduced their exposure due in part to the difficulties in their home markets. We will continue to focus on this business, while being prudent to limit our exposure in terms of the allocation of our Risk Capital, while allowing us to maximize our returns.

Q Considering you have made substantial losses in your consumer finance and installment sales credit or "*shinpan*" businesses in the past, why are you continuing to focus on this area?

A Shinsei Bank has taken a contrarian approach to consumer finance and has been making efforts to restructure this business while actively considering acquisitions. While we did record substantial losses in this business in the past, due to legislative changes implemented in December 2006, as well as shifts in the market environment, we believe there are opportunities to grow this business especially at a time when many other companies are looking to exit.

We have two major subsidiaries related to installment sales credit and consumer finance that include APLUS (invested in September 2004) and Shinki (concluded business alliance agreement in March 2002 and made a consolidated subsidiary in December 2007). These companies will be included within the Individual pillar, where there will be one management structure, to allow us to focus our resources around the customer. This will also better enable us to leverage the synergies with our retail bank in terms of product and service offerings.

Our first goal within the installment sales credit business area has been to restructure our operations by appointing new management and reducing operating costs through measures such as the implementation of a new IT infrastructure at APLUS. Ultimately, we are looking to build a next generation installment sales credit company with best-in-class corporate governance, compliance, risk management and IT infrastructure systems. To capitalize on the wealth of synergies to be generated by the close relationship between APLUS and Shinsei, we have started to leverage APLUS' operations to benefit the Retail Banking business with the launch of Shinsei Visa Card, with more collaboration planned in the future.

We are looking to put further emphasis on our consumer finance operations by utilizing the excellent credit scoring and collection systems capabilities of Shinki. Complementing the services offered by APLUS and enhancing its coordination with the Shinsei Bank Group, Shinki is expected to play a significant role in our consumer finance operations as we work to meet the ever-diversifying needs of our customers.

Recent trends for grey zone claims at both APLUS and Shinki have generally been flat since the second half of fiscal year 2007. While our view on the grey zone outlook remains inconclusive, as it is still probably too early to say claims have peaked, the trend is encouraging.

Finally, we are actively pursuing opportunities to grow our consumer finance business and expand the scope of these operations by making selective acquisitions to take advantage of economies of scale. We would like to play an important part in the industry consolidation and believe that we can increase our corporate value by effectively leveraging the synergies created between our banking and non-banking businesses.

Q Why is one of the best retail banks in Japan unprofitable and what measures are you taking to bring it back to profitability?

A Shinsei Bank has been ranked as the number one or two bank in Japan for customer satisfaction over the last four years, and number two for retail bank strength, according to two annual *Nihon Keizai Shimbun* surveys. However, the bank has not been profitable for the last two years due mainly to lower revenues related to structured deposits, as a result of lower demand for this product. While we have been able to increase the balance of housing loans, mutual funds and variable annuities, larger revenues from these products were not enough to offset the decline related to structured deposits. Our strategy for returning to profitability focuses on four major themes. First, our retail banking operations will be included in the Individual pillar, where there will be one management structure, to allow us to focus our resources around the customer. Second, we are making efforts to reduce costs by closing unprofitable branches/ATMs and reexamining how to provide services in the mass retail customer segment. Third, we look to continue to expand on the success of our growing housing loan portfolio going forward and also focus on strengthening the mass affluent customer segment. Finally, we will market a bank-branded card loan, introduced in June 2008. We believe these fundamental activities will play significant roles in turning our Retail Banking operations around.

REVIEW OF OPERATIONS

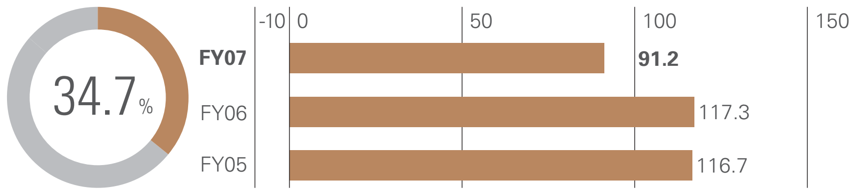
AT A GLANCE

FY07 Contribution [1] | Financial Summary (Billions of yen)

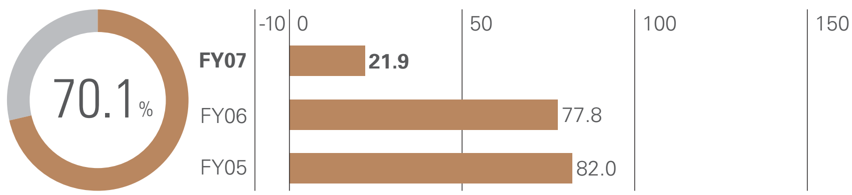
Institutional Banking

Our Institutional Banking Group faces a highly competitive and volatile business environment. It is precisely such an environment in which the Group's combined commercial and investment banking abilities distinguish the Bank from the competition. Our M&A, capital markets, industry and other product specialists work closely with customer relationship managers to ensure long-standing relationships, quality and sustainable earnings.

Revenues



Ordinary Business Profit After Net Credit Costs (Recoveries)

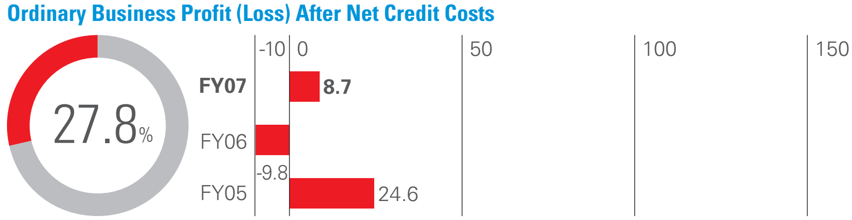


Consumer and Commercial Finance

Consumer and Commercial Finance serves three markets: consumer, commercial and specialty property finance. This business and the associated "non-bank" subsidiaries work closely with both the Retail Banking Group and the Institutional Banking Group to meet the needs of both consumers and small- and medium-sized enterprises.

Revenues

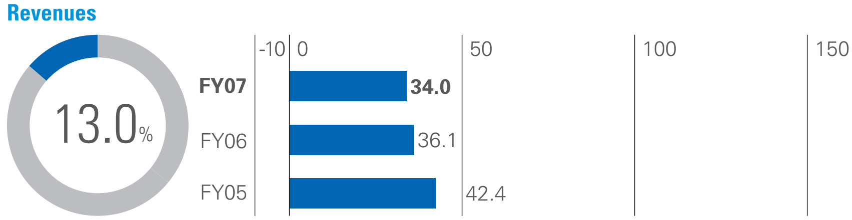
Ordinary Business Profit (Loss) After Net Credit Costs



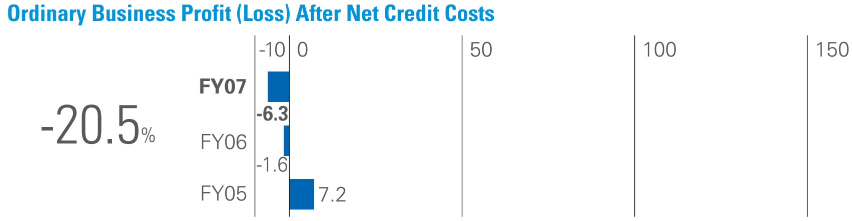
Retail Banking

The Retail Banking Group aims to become the "Best Money Advisor" and meet the needs of its customers by providing optimum asset management solutions and by further enhancing its *Shinsei Platinum Services* and asset management consulting services. As a reflection of these efforts, Shinsei Bank was ranked second for outstanding customer satisfaction in the *Nihon Keizai Shimbun*'s fourth annual survey of the retail banking industry in December 2007. Customers in their 20s, 30s and 50s rated us as the bank with highest customer satisfaction in the same survey. We will continue to enhance our commitment to customer satisfaction by offering banking and financial services which truly exceed expectations.

Revenues

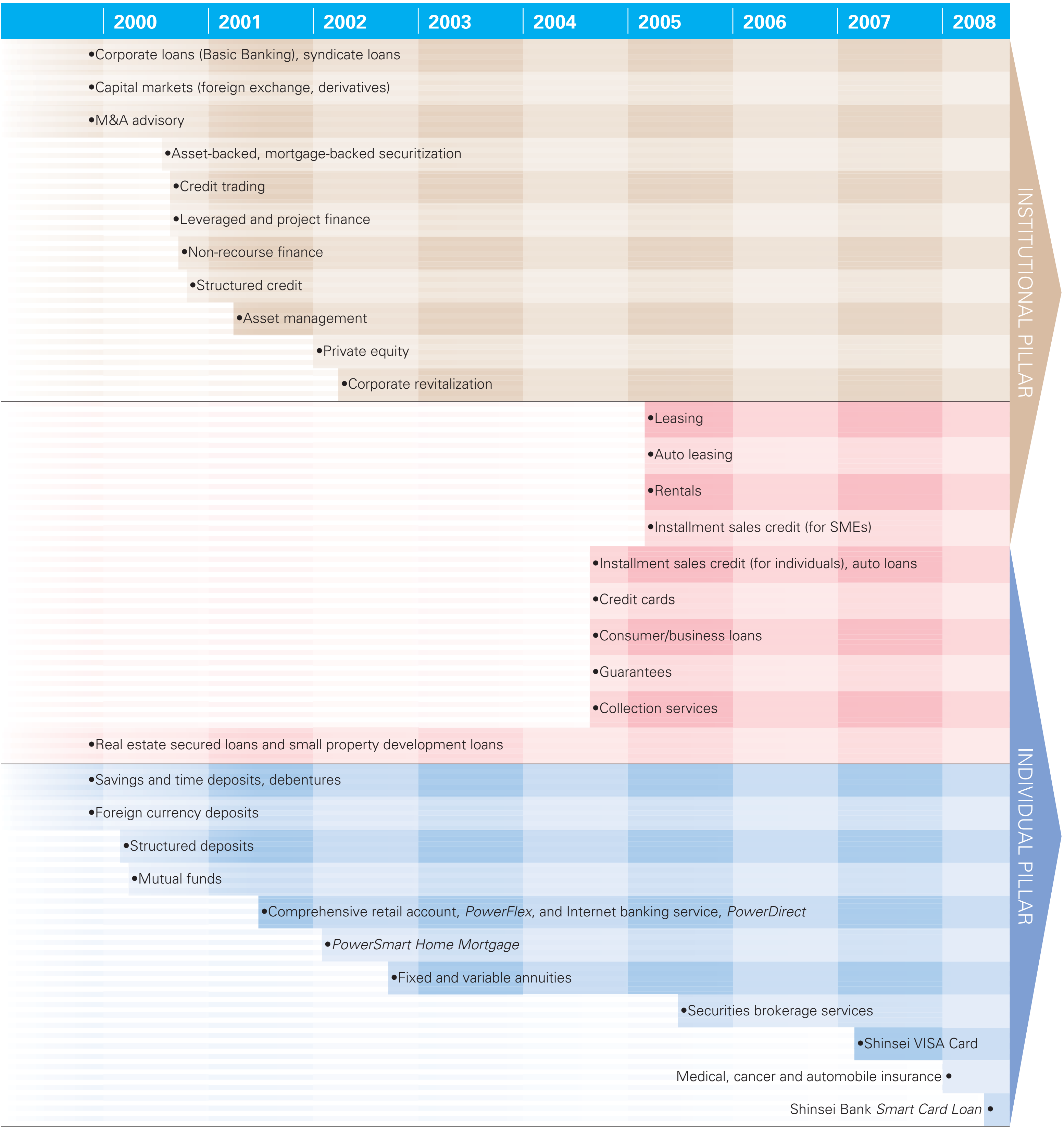


Ordinary Business Profit (Loss) After Net Credit Costs



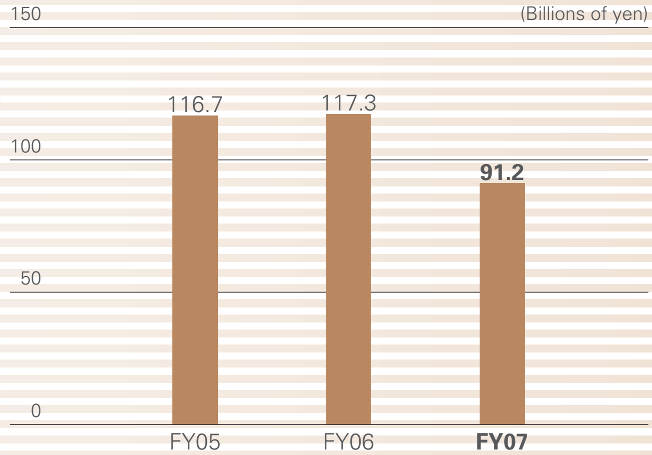
Note: (1) The percentage figures do not add up to 100 because of ALM/Corporate/Other.

PRODUCT & SERVICE HISTORY

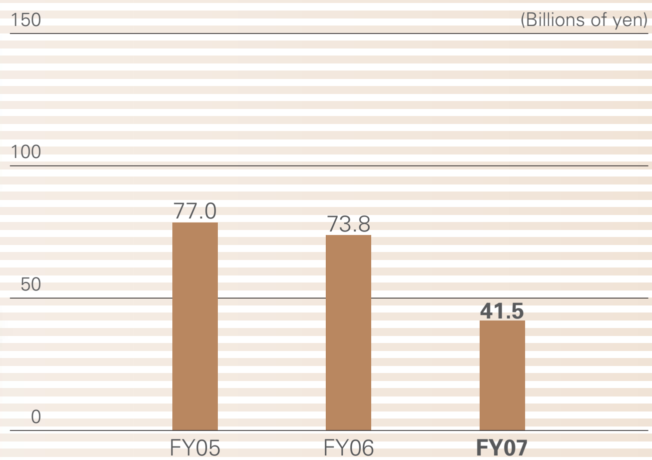


INSTITUTIONAL BANKING

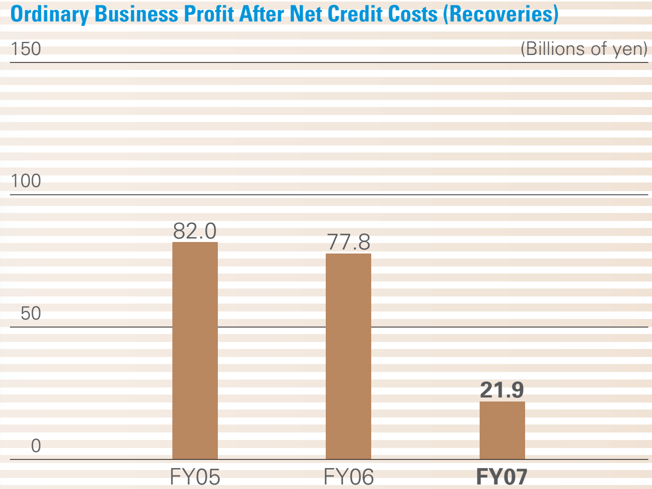
Revenues



Ordinary Business Profit



Ordinary Business Profit After Net Credit Costs (Recoveries)



Our Institutional Banking Group faces a highly competitive and volatile business environment. It is precisely such an environment in which the Group's combined commercial and investment banking abilities distinguish the Bank from the competition. Our M&A, capital markets, industry and other product specialists work closely with customer relationship managers to ensure long-standing relationships, quality and sustainable earnings.

Operating Results

In fiscal year 2007, the Institutional Banking business earned revenue of ¥91.2 billion, a 22.2% decline or ¥26.0 billion lower than the previous fiscal year. This is mainly attributable to the recognition of mark-downs (¥15.6 billion) and reserves (¥13.4 billion) specific to our U.S. residential mortgage portfolio and reduced size and volume of securitization transactions. However, our loan, real estate non-recourse finance, credit trading and principal investment businesses continued to show solid results as did our asset management and advisory businesses. Consequently, we expect to continue to invest in and grow these businesses. Steady loan demand from financial sponsors has led to favorable asset growth in Institutional Banking. We continue to price loans based on disciplined risk-return criteria to ensure asset quality is not compromised. We continue to pursue profitable opportunities and work together within the Shinsei Bank Group and with our partners to provide solutions to current and prospective customers.

Business Environment

While we expect our operating environment to remain challenging, certain marginal competitors have faded as a result. For our Institutional Banking professionals, this has resulted in better pricing, more opportunities and an occasion to demonstrate greater consistency to our customers.

Strategy

To deepen our lending relationships, both with traditional customers and financial sponsors, the Group made a number of key new hires for the capital markets in the second half of fiscal year 2007. These professionals bring with them expertise in product development, management and marketing. We believe they will continue to diversify our sales and trading revenues and ensure a balance between revenues from agency and proprietary transactions, which is one of the key objectives of Institutional Banking. By strategically investing in personnel, we anticipate increased customer flows, specifically from SMEs, at the Bank, and at our securities and asset management subsidiaries.

Challenges

In this market environment, it is more important than ever to allocate resources in a disciplined manner. Institutional Banking's management team aims for efficient allocation of resources into the areas where we see the potential for growth and results. In the fourth quarter of fiscal year 2007, management instituted a new and more rigorous budgeting process to ensure value is created accordingly for customers and the Bank's shareholders.

Business and Progress

Basic Banking and Lending

In addition to traditional banking products and services, our corporate, financial institutions and public sector relationship management teams offer an increasingly diverse range of innovative and value-added financial solutions to our customers. The teams work closely with current and prospective customers to determine their needs and work across our product groups to find solutions. For example, longstanding relationships with regional banks and other local financial institutions have led to a number of new activities, such as providing balance sheet and capital structure advice and distribution arrangements for "white-labeled" investment trust products sourced and vetted by our asset management group. These partnerships distinguish Shinsei within the Japanese market. One such arrangement was established in February 2008 with Towa Bank, Limited to develop and promote high value-added financial products and services to Towa Bank customers, as well as expand product offerings to a broader customer base. As the Japanese government continues to make financial and administrative reforms, we have also worked closely with governmental agencies, municipalities and affiliated associations to arrange alternative sources of funding and new financing solutions for the public sector.

Credit Trading and Principal Investment

Our trading and investment activities in non-investment grade markets performed well in fiscal year 2007. We continue to allocate capital and resources to this business and invest actively in distressed asset portfolios in Japan and selected overseas markets. Servicing non-performing loans (NPLs) and securitization schemes remains a core competency. Our experience as private equity investors, direct and via funds, is also well-established and geographically diverse. To build and expand on this experience, we established a ¥10 billion private equity fund jointly with the Development Bank of Japan in February 2008.

Capital Markets

We are actively marketing to a wide variety of financial institutions, corporate, public sector and wealth management customers. Given the breadth of our customer relationships, we are very optimistic about the future potential of these markets' businesses. The Capital Markets business is active in a range of activities with our customer base, including FX, interest-rate and credit derivatives. We provide both products and solutions for asset buyers, as well as for customers who require liability services. We have been boosting our capability across the full range of capital markets products, as well as enhancing our new product development and risk management, in order to meet our customers' needs.

Securitization

The quality and innovation of our securitization operations have established the Shinsei Bank Group as a leader in what has now become a core business. However, the credit market turmoil in fiscal year 2007 affected our securitization business, along with the industry in general, resulting in mark-downs related to the U.S. residential mortgage portfolio and slower volumes. As a result, we have focused less on introducing new asset classes for warehousing and have repositioned the business to a size commensurate with the market.

Corporate Advisory and Revitalization Business

Providing advisory services is an essential approach to help our customers strengthen their financial fundamentals and improve asset efficiency. Restructuring advice and deal execution are therefore key products for our middle market and regional customer base which, along with our core loan capabilities, few other financial firms can duplicate.

Wealth Management

Our Wealth Management Division provides innovative solutions for both the personal and business needs of high net worth individuals and owners of small- and medium-sized enterprises. Our customer list includes some of the most successful and influential entrepreneurs and business leaders in Japan.

Asset Management

We strive to meet the asset management needs of our institutional and retail customers by offering "best in class" asset management solutions. Upon rigorous review of leading Asian, European and U.S. asset managers we selected those with unique products that performed consistently throughout cycles. Through our licensed discretionary asset management subsidiary, Shinsei Investment Management Co., Ltd., these products are tailored for the Japanese market for distribution into our own institutional and retail channels, and via third-party regional banks or brokerage firms with which we have established strong relationships. Consistent with other businesses within Shinsei, which have developed transactions and activities in certain emerging markets, the Asset Management Sub-group has entered into a business cooperation agreement with a leading Indian investment firm, UTI Asset Management. Its objective is to offer products managed by the UTI Group in India and elsewhere for our customers in Japan and to broaden such cooperation throughout the Asian region.

WE ARE A DIFFERENT KIND OF JAPANESE BANK — BETTER TOGETHER —

Shinsei isn't a megabank with a broad global network of international offices. So why did British mega brand HMV Group handpick Shinsei to sell its Japanese business in a move that caught major global investment banks by surprise?

Last February, the London-based group came to Japan to meet with potential financial advisors about a possible sale of HMV Japan. HMV wanted an advisor with deep ties to the local market. But it also needed a partner who could make the Japanese market understandable to HMV executives in the UK. For several years, Shinsei had been calling on HMV Japan regularly regarding various strategic alternatives for Japan. The senior management of HMV Japan knew Shinsei had the combination of cross-border capability, international attitude and unmatched local knowledge they needed. The persistence and efforts paid off when Shinsei won the exclusive advisory mandate for the sale.

Neil Bright, the Chief Financial Officer of HMV Group plc, said "Shinsei Bank's well-organized team of professionals was able to come up with an innovative solution to meet our needs on our terms. By working with Shinsei Bank, we were able to close the transaction successfully and gained the confidence that we can trust Shinsei to provide first-class service in a professional manner."

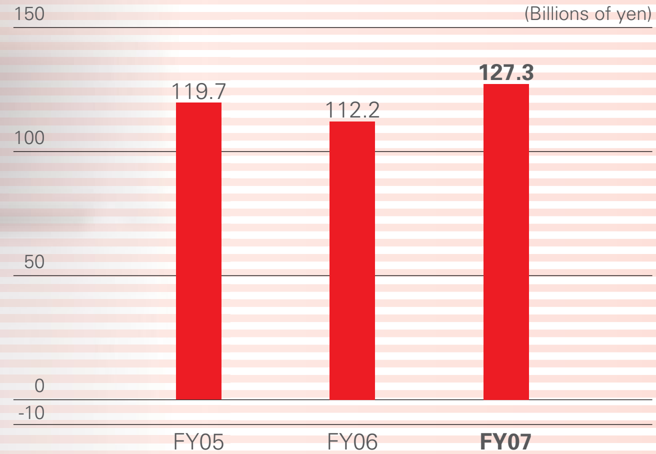
"To win a mandate from a customer, you've got to be in front of them, always pitching, always there," said Bruce Pomer, General Manager, International Corporate Banking Division. But it was Shinsei's unique profile that sealed the deal, he added. "Not just any Japanese bank could do this deal. We really are a different kind of Japanese bank."

Shinsei executed a bidder-heavy auction and secured a highly competitive sale price of ¥17 billion for HMV.

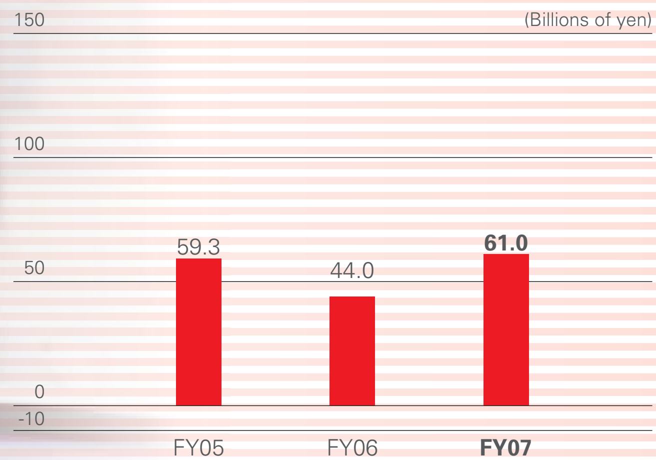
The sale to Daiwa SMBC Principal Investments closed in August 2007.

CONSUMER AND COMMERCIAL FINANCE

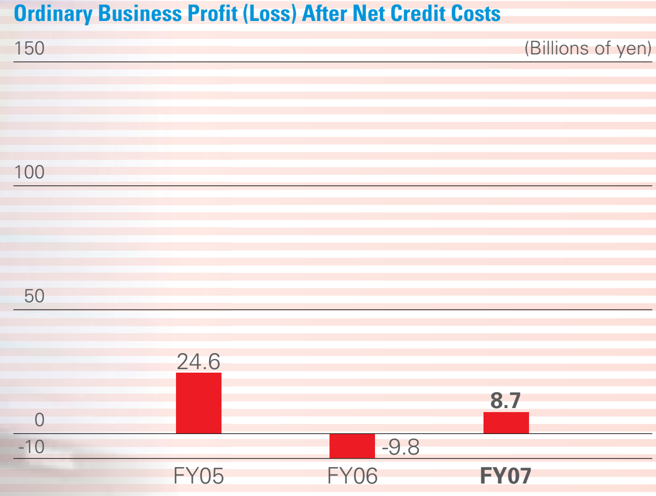
Revenues



Ordinary Business Profit



Ordinary Business Profit (Loss) After Net Credit Costs



Consumer and Commercial Finance serves three markets: consumer, commercial and specialty property finance. This business and the associated "non-bank" subsidiaries work closely with both the Retail Banking Group and the Institutional Banking Group to meet the needs of both consumers and small- and medium-sized enterprises.

Operating Results

In fiscal year 2007, the Consumer and Commercial Finance (CCF) business contributed total revenue of ¥127.3 billion, an increase of ¥15.1 billion, or 13.5%, on fiscal year 2006. This includes Shinki's revenue from the second half of fiscal year 2007, a consolidated subsidiary from October 1, 2007, of ¥13.2 billion. Ordinary business profit was ¥61.0 billion in fiscal year 2007, up ¥16.9 billion year on year. Offsetting Shinki and Showa Leasing Co., Ltd.'s (Showa Leasing) increased credit costs with APLUS' lower credit costs, due to stricter credit discipline, ordinary business profit after net credit costs was ¥8.7 billion in the fiscal year ended March 31, 2008, up ¥18.5 billion year on year.

Business Environment

The consumer finance sector witnessed further turbulence in fiscal year 2007. Excess interest claim reports were closely monitored and the failure of several consumer lenders, and potential market exits by significant global participants were widely reported. Incremental changes in both company and customer behavior are indicative of broader and more pronounced industry trends. For this sector's short-term outlook, we are confident that stable, low-cost funding will remain critical. However, long-term success will require both efficient new customer origination and a low-cost, highly-flexible operating platform.

Strategy

Our strategy is to capitalize on Shinsei's core strengths of customer focus, excellence in technology and the Shinsei brand to improve the long-term shareholder value of Shinsei Bank and its Group companies. This strategy was premised in part upon the eventual disappearance of the boundaries between "banks" and "non-banks." This convergence continued in 2007, catalyzed by the second enforcement of the Money Lending Business Law as well as changes in lease accounting standards.

While the level of market dialogue regarding potential acquisitions is very high in general, at present we remain satisfied with the quality and progress of our consumer finance business and will continue to be very selective in considering acquisition opportunities for expansion.

Challenges

Regulations for "restrictions on total loan amount" and "lowering of the interest rate ceiling," expected to come into effect in December 2009, are expected to have a material impact on all money lenders. Although restrictions on total loan amount may result in a contraction of the overall market, Shinki and APLUS have already started to lower the interest rates of their loans ahead of schedule to retain profitable customers. The revision of the Installment Sales Law will also affect sales finance companies and credit card companies. Ahead of its peers, APLUS has been reviewing its member merchants since December 2006 and has been achieving its earnings targets even under stricter regulatory controls.

Business and Progress

APLUS

APLUS provides installment sales credit, credit cards, consumer loans and guarantee/collection services to individuals primarily through merchant partners. APLUS has established deep and long-standing relationships with many merchant partners and strives to work closely with them to grow the business together.

Shinsei's own consumer finance businesses regained stability during the fiscal year with APLUS achieving its full-year forecast and returning to profitability. APLUS is not only prepared to face the changing environment ahead, but also is positioning its business to become the market's leading partner for merchants requiring high-level solutions. A critical infrastructure upgrade is underway, as well as continued augmentation of the APLUS senior leadership team. Both of these investments will enable customer and solution expansion going forward. A few of the synergies already being realized between APLUS and Shinsei include the utilization of technology leadership to enhance customer satisfaction at key accounts, continued financial support recently evidenced by our subscription to ¥50 billion in APLUS' preferred shares in March 2008, and continued direct and indirect management support.

Shinki

Shinki offers "white zone" consumer loans to individuals and small- and medium-sized enterprise owners. Shinki has responded to the challenges facing the consumer finance industry by making significant provisions, enhancing efficiency and accelerating the transformation of its business model. Shinki has made significant additional provisioning in the first half of this fiscal year in support of management's proactive approach to fully provision for the impact from a consumer credit squeeze and projected future "grey zone" claims to ensure profitability going forward. In December 2007, we participated in Shinki's rights offering which moved Shinki from a 36.4% equity method affiliate to a 67.7% consolidated subsidiary and lowered our average cost of ownership significantly. Shinki's business rationalization initiatives during fiscal year 2006 and in the first half of fiscal year 2007 resulted in a profitable second half of fiscal year 2007, recording net income of ¥2.7 billion, on a standalone basis, over the six-month period.

Showa Leasing

Showa Leasing is a leading general and automobile leasing company with a strong heritage and significant customer base across Japan. During the fiscal year 2007, our commercial finance businesses moved closer together as Showa Leasing acquired an 87.5% interest in Shinsei Business Finance Co., Ltd., with the remaining shares being held by Shinsei Bank. Showa Leasing worked closely with the Bank's Corporate Banking Business Sub-Group, as both sales forces face fierce price competition in their core markets and seek to differentiate their businesses by developing deeper customer relationships that span a range of product solutions. During fiscal year 2007, Shinsei's direct support of Showa Leasing's new business origination was up 65% year on year, compared to the record levels set in fiscal year 2006.

Shinsei Property Finance

Early in fiscal year 2007, Shinsei Property Finance Co., Ltd. (Shinsei Property Finance), a provider of real estate secured loans for individuals and small property development loans, sold its 100% interest in Life Housing Loan Co., Ltd (Life Housing Loan) to Sumitomo Trust & Banking Co., Ltd. This is just one example of how Shinsei's expertise and support have successfully enhanced the value of a franchise in the space of only a few years. Shinsei Property Finance has prepared its portfolio and business for the inevitable down cycle associated with its particular market niche. As a result, even when excluding the material gain on the sale of Life Housing Loan, Shinsei Property Finance had a very strong fiscal year 2007, generating record revenues, ordinary business profit and net income.

MERCHANT TESTIMONIALS — SHINSEI AS GAME CHANGER —

Since 2002, Amway Japan has had a business relationship with APLUS that has evolved to incorporate several credit products to support Amway's distributors. In particular, both installment sales credit and the APLUS/Amway Card have become core tools to ensure safe and efficient transactions for our members. APLUS has a clear focus on consumer safety and business style for promoting true partnerships with merchants that have the same business values. APLUS has taken the time to understand our strategy and values, and there is constant dialogue at all levels of the organization on how to improve and further differentiate the services provided. APLUS' entry into the Shinsei Bank Group in 2004 brought yet another level of engagement with Shinsei's management to utilize the strengths of both companies to support Amway's business in Japan. The cooperative partnership that APLUS and Shinsei have established in their approach to Amway is unique in Japan, and has created a win-win situation for all parties involved. Amway and the Shinsei Bank Group look to build on this relationship as they continue to grow going forward.

Mr. John Parker,
President and Representative Director, Amway Japan Limited

We, at Gulliver International Co., Ltd., have approximately 450 stores throughout Japan. Ever since our establishment, our company has been engaging in business aimed at sparking a "revolution in the distribution of vehicles."

While we have a track record of purchasing approximately 250,000 vehicles per year, we have also been enhancing our retail operations, offering and selling vehicles that meet the needs of our customers. In addition to our existing operations in Japan, as well as the U.S., we are planning to expand into China and India.

By maintaining a good partnership with APLUS, a consumer credit company that has strengths in the auto market and provides innovative financial services, we believe that we will be able to provide better services to our customers.

While customer needs are becoming increasingly diverse and sophisticated in our industry, we expect APLUS to contribute with a wealth of new ideas, proposals and advanced infrastructure.

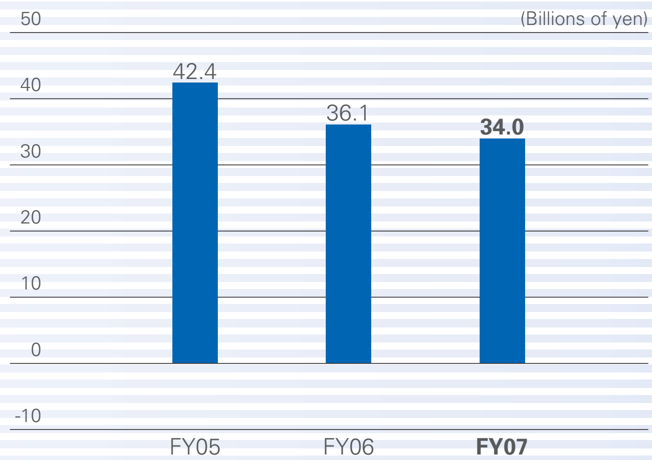
We at Gulliver International, are determined to make our corporate philosophy, "Growing Together" a reality in all aspects of our business. By making active use of the relationship we have built up with APLUS, we are confident that we, together with APLUS, will be able to grow going forward.

Mr. Kenichi Hatori,
Chairman, Gulliver International Co., Ltd.

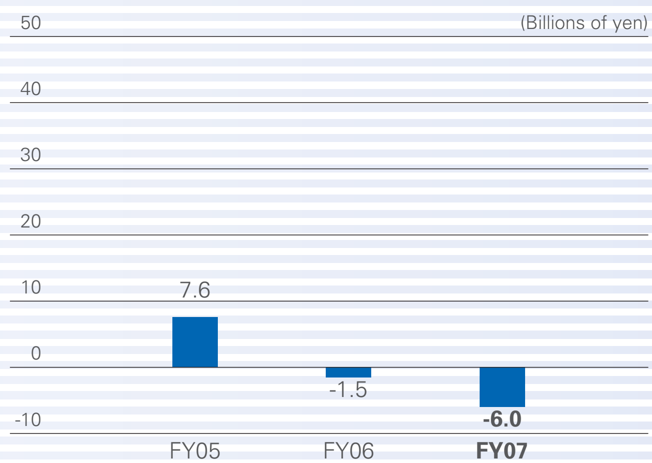
GAME CHANGER

RETAIL BANKING

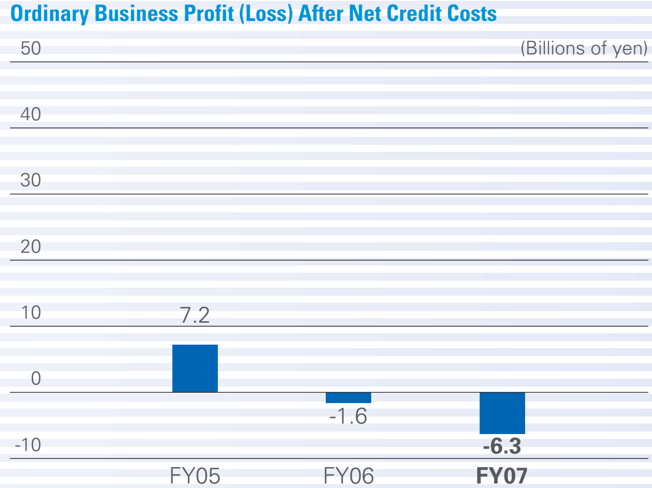
Revenues



Ordinary Business Profit (Loss)



Ordinary Business Profit (Loss) After Net Credit Costs



The Retail Banking Group aims to become the "Best Money Advisor" and meet the needs of its customers by providing optimum asset management solutions and by further enhancing its *Shinsei Platinum Services* and asset management consulting services. As a reflection of these efforts, Shinsei Bank was ranked second for outstanding customer satisfaction in the *Nihon Keizai Shimbun*'s fourth annual survey of the retail banking industry in December 2007. Customers in their 20s, 30s and 50s rated us as the bank with highest customer satisfaction in the same survey. We will continue to enhance our commitment to customer satisfaction by offering banking and financial services which truly exceed expectations.

Operating Results

In fiscal year 2007, a steady increase in assets, including housing loans, mutual funds and variable annuities, contributed to a continued expansion of our customer base. The number of retail accounts surpassed 2.2 million and the assets under management reached ¥5 trillion as of the end of April 2008. While we have substantially decreased our dependence on structured deposit earnings by promoting revenue diversification, we recorded larger losses year on year due to increased expenses from channel expansion, and lower sales of investment products reflecting challenging market conditions.

Business Environment

In terms of business environment, competition intensified for retail banking services in Japan during fiscal year 2007 due to the enhancement of retail strategy by major banks, the entry of overseas financial institutions and non-financial companies into the banking industry, as well as the emergence of Internet-based banks. Against this backdrop, we have continued our efforts to differentiate ourselves from the competition by offering unique services. These include our "Best Money Advisor" strategy of providing quality asset management consulting services to meet the needs of each customer, and the *Shinsei Platinum Services*, which offers new and preferential services to customers meeting certain conditions. Regarding legal changes surrounding the retail banking business, we consider the implementation of the Financial Instruments and Exchange Law in September 2007 as an opportunity to strengthen relationships with our customers and offer financial products backed by a sound compliance system.

Strategy

Our operations will focus on the "Best Money Advisor" strategy and growth of loan assets to achieve continued expansion of our customer base and sales of our popular loan products. With the introduction of the "Best Money Advisor" strategy last year, we improved the consulting skills of each staff member at our Shinsei Financial Centers, and were successful in building and strengthening customer relationships by offering optimum financial advice and products. As for our loan assets, *PowerSmart Home Mortgages* (which have no guarantee or early repayment fees) made a significant contribution to loans made last fiscal year. We will continue to enhance this particular product while expanding our overall loan product lineup.

Challenges

To achieve these goals, we consider the thorough deployment of compliance and establishment of enhanced administration as one of our top priorities. We will strive to acquire more customers by tailoring our product lineup, such as investment trusts and annuities, to market needs. We will also reexamine our fixed and variable costs, and leverage our strengths in low-cost technology and operational efficiency to generate greater profits.

Business and Progress

Becoming the Best Bank for Asset Management Services

Five-minute asset management manual

We started an advertising campaign in October 2007, titled "Please Give Shinsei Bank Five Minutes," that primarily targets the demand for asset management services among retirees and those who are making plans for their retirement years. This campaign stresses the need for asset management in order to lead a fulfilling post-retirement life and encourages individuals to read a Shinsei Bank publication called *"Managing Your Own Money: A Five-Minute Reader."* The *Reader* explains the need to manage assets wisely and outlines methods for growing assets while limiting risk. Our objective was to create a manual that encourages customers to become involved in asset management.

Shinsei Platinum Services

We started offering new *Shinsei Platinum Services* in July 2007 to customers who meet certain requirements. Eligible customers receive a Shinsei Platinum Card, higher interest rates on six-month and one-year yen time deposits and many other benefits. For example, customers can make an overseas remittance once a month at no charge and pay no fees for the first visit to a financial planner.

Meeting the need for long-term internationally diversified investment

We started offering an investment trust in December 2007, launched by Shinsei Investment Management, a wholly-owned subsidiary of Shinsei Bank. The management of the funds will be carried out by the Bank Julius Baer & Co., Ltd., a Swiss private bank focused on wealth management.

Bancassurance

We started offering seven insurance policies including medical, cancer and automobile insurance at Shinsei Bank branches and over the Internet (Shinsei *PowerDirect*) from January 2008. The move follows the deregulation of Japan's insurance market in December 2007 to allow the sale of insurance products, bancassurance, through banks. Offering insurance products, in addition to existing savings products, we are now able to provide consulting services to better meet the financial and life planning needs of individual customers.

Offering Security and Convenience

Security measures

We understand the importance of providing customers with effective and strict risk controls when delivering our services. Security concerns in Japan prompted the Bank to introduce *PowerYokin* in March 2005. This is a yen deposit account that allows customers to withdraw funds flexibly in the same manner as savings deposits, while offering greater security against fraudulent ATM use.

From September 2005, we decreased the default withdrawal limit at domestic ATMs to ¥500,000 per day to promote customer account safety through stringent security measures. From October 2006, we also decreased the default withdrawal limit for overseas ATMs to ¥100,000 per day. Our website's "Shinsei Security Center" also provides easy to understand security information. In addition, in May 2007 we introduced a Shinsei *PowerDirect* Security Code Card for Shinsei *PowerDirect* (Internet banking) in order to improve the security of our customers' log in procedures through a random number security code.

Kashiwa Financial Center opens

In May 2007, Shinsei Bank opened a Financial Center in Kashiwa, a major commercial hub in Chiba prefecture, on the outskirts of Tokyo. Customers can visit the Center from 11 a.m. to 7 p.m. every day except Sunday. In addition to opening accounts, individuals can visit the Center for asset management consultation. Financial consultants will prepare a personalized plan and selection of investments based on the individual's knowledge, experience, objectives and financial position.

New call center in Fukuoka

Shinsei Bank began operations at its second domestic call center in June 2007. Located in Fukuoka, the largest city in Kyushu, the new facility shortens waiting times for customers by increasing capacity.

Expansion of ATM network inside Japan Railway (JR) and major railway stations

We expanded our ATM network by opening a new ATM inside JR Mitaka (Tokyo) and Kyoto stations in December 2007 and January 2008, respectively. Our ATM network also includes stations on the Tokyo Metro, Keikyu and Kintetsu Railways. With 76 ATMs at 49 stations (as of March 31, 2008), Shinsei boasts the largest ATM network in the Tokyo Metro.

Shinsei Bank commences joint ATM tie-up with Miura Fujisawa Shinkin Bank

Shinsei Bank commenced a joint ATM tie-up with Miura Fujisawa Shinkin Bank from September 2007. The new partnership enables Shinsei *PowerFlex* cash card holders to make free of charge cash withdrawals and account balance inquiries at ATMs operated by Miura Fujisawa Shinkin Bank.

PowerSmart Home Mortgage

From January 2008, *PowerSmart Home Mortgage* customers can make early repayments in one-yen increments via Shinsei *PowerDirect* (Internet banking) and via our call center. *Power Smart Home Mortgages* require neither a guarantee fee nor early repayment fee. In addition, customers can change the amount of early repayment or terminate the function via Shinsei *PowerDirect*.

POWERSMART HOME MORTGAGE — EXCEEDING EXPECTATIONS —

Customers at Head Office Shinsei Financial Center

The number of customers and loans actually made through our *PowerSmart Home Mortgage* has been constantly increasing, thanks to some highly acclaimed features such as the absence of a guarantee fee or early repayment fee and SmartPay (automatic early repayment). We are listening to customers' comments and striving to reflect them in our product development and sales activities. In fiscal year 2007, we acted on feedback from customers who said they wanted to complete their mortgage payment as early as possible, with control over the amount and timing of payment. To further enhance our existing early repayment feature, we began offering *PowerSmart Home Mortgage* customers the choice of specifying the amount of early repayment via Shinsei *PowerDirect* (Internet banking) in January 2008. The addition of this new function to the *PowerSmart Home Mortgage* enables customers to make loan payments from as little as one yen through the Internet, thus accelerating the repayment process.

In addition to product enhancement, we have looked to streamline the screening process for *PowerSmart Home Mortgage* by providing various follow-up services to applicants.

Customers at the Head Office Shinsei Financial Center who have chosen *Shinsei PowerSmart Home Mortgage* said, "the quality and terms of products, as well as service and consultation by the sales staff, all exceeded our expectations. We are happy to call on Shinsei for one of our most important decisions in life."

We are committed to exceeding expectations by delivering continuously high levels of service and offering products that meet our customers' needs, while actively engaging in the development and sales of other financial products.

EXCEEDING EXPECTATIONS

BANKING INFRASTRUCTURE

Our goal is to build and sustain a robust IT platform with versatile functions and features that our businesses can rely on to drive growth. We endeavor to provide our businesses with optimal solutions to deliver the best quality products and services for our customers, enabling us to offer the best pricing in the marketplace. For our businesses, technology must provide a distinct competitive advantage allowing them to offer unique products and services unmatched in the industry. We strive to remove every opportunity for mistakes and errors in our designs and build capability that allows customers to conduct their own transactions.

IT Platform Driving Highly Automated Processes

We break our work down into individual tasks and organize them as structured processes that are backed up by our IT systems, delivering a very high quality automated and paperless work environment. Tasks are presented to our staff along with the information necessary to complete them, allowing people with generalist skills to perform all the work with minimal training. The flexibility and convenience of our IT platform powers the rapid growth of the entire Shinsei Bank Group. Shinsei Bank is an industry leader in customer satisfaction, launching new products and services that meet the needs of our institutional and retail clients. The focus on excellence never ends, as we continually review our operations and increase the use of automated processes to ensure we have the resources to support our growth.

The key difference between us and the competition is that we look at the entire operation as if it were a large computer, categorizing ourselves into three classes of "machines": a class of machines that process transactions for customers and the Bank; another that controls the processes; and a third which controls all of the data processing "machines." This approach applies to the entire process chain, from direct customer contact all the way to the back-end of accounting, reporting and gateway of financial transfers. We differentiate ourselves from the competition in almost all aspects of our IT systems, including the way we have organized our work; we do not use supervisors to check transactions, as machines check the transactions.

High Degree of Flexibility

Shinsei has built a unique IT platform among banks. It was created to be flexible, enabling the Bank to move quickly to seize opportunities in both the institutional and retail markets and offer new products and services to our customers. It is scalable, allowing the Bank to grow rapidly without straining personnel and resources. Our infrastructure is built to be flexible and interchangeable, leveraging the strength of existing systems and continuously incorporating new developments and innovations. The modular platform is designed to be continually updated and improved. As a result, building blocks can be added seamlessly to enable the Bank to handle complex transactions effortlessly. The design allows Shinsei to quickly and inexpensively update new technology or software needed to support a new product offering.

Highly Secure

Most importantly, our IT platform ensures the safety and security of our customers and their transactions. The redundancy we have built into the system ensures our customers' experience, whether online or at a branch, is best in class. The Bank's technology platform has multiple levels of redundancy, with back-up systems located in a number of facilities. Should any of our sites go down, there are several other sites positioned to take over and ensure the customer experience is not interrupted.

We have increased capacity to our host machines with the new data center in Fukuoka prefecture. To ensure that we always have command and control capabilities, we have built a second command center in Singapore. For processing customer documents we have established an additional center in Chiba prefecture. Taken together, they make our platform highly robust and resilient.

Scalable

We are able to scale up our operations very rapidly because all our IT systems are made up of discrete components, and we can add components as needed. Work is spread out and assembled around various stations and does not occur at a single point. Organized quite literally like a factory, with IT systems deployed as in a factory, this structure is extremely resilient. Even when we add new machines, we do not stop our operations as our businesses are working around the clock. This allows us to deliver uninterrupted service to our customers, even as we introduce new changes on the running platform.

Empowering Our Customers

We are transparent to our customers through our processes and technology. This is to make sure that we do not make a mistake as a result of a lack of experience in serving the customers. Our systems are designed for self-service, including a capability called "assisted channel," which allows customers to initiate and complete their transactions quickly.

Our IT capabilities are designed to be highly visible in order to service the customer. All the tools are available within easy reach at any of our Financial Centers, including the ATM, a call center hotline and an Internet terminal for account access. We keep housing loan applicants constantly updated on documents to be submitted and the status of their applications through periodic mailings and whenever they contact the call center. As a result, the entire process is highly transparent and customer-friendly.

We are Where Our Customers are

We have tried to create a model where our customers can either call us on the phone or visit any of our branches. Everything that can be done in person can be done over the Internet, as it is available through all channels, and this applies for all our institutional and retail customers. Our basic belief is: "We will be where you are."

Our customer sessions are highly interactive, with the customer in full control of their account in all dimensions. We wrap the Bank, as well as the technology, around the customer, whether over the Internet, on the phone or in-person at our branches. We focus our technology in a way that conveys to the customer: "You are the only customer we have."

DESCRIPTION*

Many managers think that developing and rolling out a major IT system is like putting up a warehouse: You build it and you're done. But that does not work for IT anymore. Taking that approach results in rigid, costly systems that are outdated from the day they are turned on. What's needed for today's businesses is IT that serves not only as a platform for existing operations but also as a launchpad for new functions and businesses. In this article, the authors present a path-based approach that addresses the primary challenges of IT: the difficulty and expense of mapping out all requirements before a project starts because people often cannot specify everything that they need beforehand; the other unanticipated needs that almost always arise once a system is in operation; and the tricky task of persuading people to use and "own" it. Japan's Shinsei Bank emerged during the authors' research as a standout among the companies applying the path-based method. The firm designed, built, and rolled out its system by forging together, not just aligning, business and IT strategies; employing the simplest possible technology; making the system truly modular; letting it sell itself to users; and ensuring that users influence future improvements. Some of the principles are variations on old themes, while others turn the conventional wisdom on its head.

* The description for the Harvard Business Review article "Radically Simple IT" by David Upton and Bradley R. Staats (March 2008) is taken from the Harvard Business Publishing website www.harvardbusiness.org.

MANAGEMENT STRUCTURE

DIRECTORS AND EXECUTIVES

As of June 1, 2008

BOARD OF DIRECTORS

Thierry Porté
President, Chief Executive Officer,
Shinsei Bank, Limited

Junji Sugiyama*2
Chairman,
Shinsei Bank, Limited

Michael J. Boskin*1
Professor,
Stanford University

Emilio Botín*1
Chairman,
Grupo Santander

J. Christopher Flowers
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
Chairman, Global Affairs,
The Estée Lauder Companies, Inc.

Minoru Makihara*1
Senior Corporate Advisor,
Mitsubishi Corporation

Yasuharu Nagashima*1
Lawyer

Lucio A. Noto*1,*2
Former Vice Chairman,
Exxon Mobil Corporation

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
Senior Advisor, Honorary Chairman,
Nippon Steel Corporation

Paul A. Volcker
Former Chairman,
Board of Governors of the Federal Reserve System

Masamoto Yashiro
Former Chairman and CEO,
Shinsei Bank, Limited

Fiscal Year 2007
Board of Directors meetings
Meetings: 13
Attendance: 87%

*1 Outside Directors
*2 Scheduled to retire on June 25, 2008

COMMITTEE MEMBERSHIPS

NOMINATION COMMITTEE
Minoru Makihara (Chairman)
Michael J. Boskin
J. Christopher Flowers
Lucio A. Noto
Thierry Porté

Fiscal Year 2007 meetings
Meetings: 2
Attendance: 90%

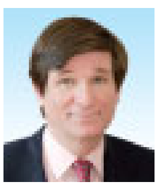
AUDIT COMMITTEE
Hiroyuki Takahashi (Chairman)
Yukinori Ito
Shigeru Kani
Yasuharu Nagashima
Nobuaki Ogawa

Fiscal Year 2007 meetings
Meetings: 13
Attendance: 97%

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

Fiscal Year 2007 meetings
Meetings: 3
Attendance: 73%

STATUTORY EXECUTIVE OFFICERS



Thierry Porté
Representative
Statutory Executive Officer,
President, Chief Executive Officer

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

Norio Funayama
Statutory Executive Officer,
General Manager of Office of
Strategy Management

Junji Sugiyama*
Representative
Statutory Executive Officer,
Chairman

Hirotaka Terai*
Senior Managing Executive Officer,
Head and Chief Operating Officer of
Retail Banking Group

Michimasa Honda
Statutory Executive Officer,
General Manager of
Financial Institutions Business and
Public Sector Finance Division

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

Junzo Tomii
Senior Managing Executive Officer,
Head of Institutional Banking Group

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

Rahul Gupta
Senior Managing Executive Officer,
Chief Financial Officer

Kazumi Kojima
Managing Executive Officer,
Head of Corporate Affairs Group

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

Masazumi Kato
Senior Managing Executive Officer,
Head of Institutional Banking Group

Kazuya Fujimoto
Statutory Executive Officer,
Head of Public Sector
Finance Sub-Group

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

* Scheduled to retire on June 25, 2008

ORGANIZATION

As of June 1, 2008

Customers

- Board of Directors
  - Chief Executive Officer
    - Internal Audit Division*3
  - Management Committee
  - Nomination Committee (*1)
  - Audit Committee
    - Office of Audit Committee
  - Compensation Committee (*2)

Under the Management Committee:

- Office of Strategy Management
- Office of CLO
- Human Resources Division*2
- Legal and Corporate Governance Group (LCG)
  - Office of Corporate Secretary*1
  - Compliance Division
    - (Financial Crime Information Department)
  - Legal Division
  - Investor Administration Office
- Institutional Banking Group (IBG)
  - IB Business Division
    - (Corporate Customer Service Department)
  - Alternative Investment Division
  - Capital Markets Division
  - Process Control Division (*5)
  - CBB Sub-Group
    - Business Promotion Unit I–V
    - Corporate Business Unit I–II
    - Business Development Unit
    - Finance Company Business Unit
    - Financial Sponsor Business Unit
    - Osaka Business Promotion Unit
    - Osaka Corporate Business Unit
    - (Unit at Specific Branch)*6
  - Real Estate Finance Sub-Group
    - Real Estate Finance Division
    - Real Estate Business Division
  - Advisory Sub-Group
    - Corporate Advisory Division
    - Solution Advisory Division
    - International Corporate Banking Division
  - Principal Transactions Sub-Group
    - International Principal Finance Division
    - Corporate Solutions Division
    - Private Equity Division
    - Credit Trading Division
    - Real Estate Principal Investment Division
    - Specialty Finance Division
    - Healthcare Transactions Division
  - FIB Sub-Group
    - FIBD I
    - FIBD II
    - (Unit at Specific Branch)*6
  - PSF Sub-Group
    - FIPSD*7
    - Osaka FIPSD*7
    - (Unit at Specific Branch)*6
  - Consumer and Commercial Finance Sub-Group
  - Asset Management Sub-Group*4
    - Asset Management Division
  - Wealth Management Division*4
- Retail Banking Group (RBG)
  - Asset Management Sub-Group*4
  - Wealth Management Division*4
  - Marketing Division
    - (Customer Service Department)
  - Platinum Banking Division*8
    - 30 Financial Centers*9 (Branches)
  - Direct Banking Division
  - Channel Planning Division
  - Retail Products Division
    - (Insurance Business Management Department)
  - Loan Products Division
  - Retail Business Division
  - Retail Business Strategy Division
  - Excellence in Banking Division
  - Retail Compliance Division
  - Retail Services Sub-Group
    - Retail Services Division
    - Channel Management Division
    - Retail Technology Division
- Finance Group (FNG)
  - 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
    - Capital Markets and Treasury Product Control Division
  - Treasury and Corporate Sub-Group
    - Group Treasury Division
    - Group Investor Relations Division
    - Group Financial Strategies Division
    - Group Corporate Analytics Division
    - Group Corporate Development Division
    - Group J-SOX Program Office
    - Office of CFO
  - Corporate Value Division (*10)
    - (Office of Corporate Sustainability)
    - (Office of Brand Management)
    - (Office of Corporate Philanthropy)
- Banking Infrastructure Group (BIG)
  - Process Control Division (*5)
  - Control Sub-Group
    - Operations Planning and Administration Division
  - Technology Sub-Group
    - Information Technology Division
    - Technology Support Division
  - Operations Sub-Group
    - Operations Services Division Grand Cayman Branch
    - Operation Support Division
    - Centralized Operations Division
- Risk Management Group (RMG)
  - Portfolio and Risk Management Division
  - Market Risk Management Division
  - Credit Risk Division
  - Financial Engineering Risk Management Division
  - Retail Banking Risk Management Division
  - Risk Management Planning and Policy Division
  - Operational Risk Management Division
- Corporate Affairs Group (CAG)
  - Corporate Value Division (*10)
  - Corporate Communications Division
  - General Services Division
    - (Head Office Relocation Preparation Department)
  - Credit Assessment 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 to CEO and to Audit Committee directly.
*4 As the Asset Management Sub-Group and Wealth Management Division are cojurisdiction (Joint Venture) of IBG and RBG, each Division shall report to both Group Heads.
*5 Process Control Division is attached to IBG, however it shall report to the Head of BIG as well.
6 Sapporo, Sendai, Kanazawa*, Nagoya, Hiroshima*, Takamatsu and Fukuoka (*:excl. PSF Sub-Group)
*7 These business divisions are placed under the direction and supervision of respective Sub-Group Heads for each customer based on its category.
*8 Incl. Ginza Annex and Nihombashi Annex
*9 Head Office, Sapporo, Sendai, Kanazawa, Omiya, Kashiwa, LaLaport, Tokyo, Ikebukuro, Ueno, Kichijoji, Shinjuku, Shiodome SIO-SITE, Roppongi Hills (incl. Keyakizakadori Annex), Shibuya (incl. Omotesando Hills Annex), Hiroo, Meguro, Futakotamagawa, Hachioji, Yokohama, Fujisawa, Nagoya, Kyoto, Osaka, Umeda (incl. Hankyu-Umeda Annex), Namba (incl. Shinsaibashi Annex), Kobe, Hiroshima, Takamatsu and Fukuoka.
*10 Corporate Value Division shall belong to both FNG and CAG. It shall report to both Group Heads.

Abbreviation

CBB Sub-Group: Corporate Banking Business Sub-Group
FIB Sub-Group: Financial Institutions Business Sub-Group
FIBD: Financial Institutions Business Division
FIPSD: Financial Institutions Business and Public Sector Finance Division
PSF Sub-Group: Public Sector Finance Sub-Group

CORPORATE GOVERNANCE

In its efforts to enhance corporate governance, Shinsei Bank has implemented a system of prompt decision-making, as well as transparent and objective management, since its new start in 2000. 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. To ensure vigorous corporate governance, Shinsei Bank adopted a "Company with Committees" (*iinkai-setchi-gaisha*) board model, effective as of June 2004.

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

Committees Board Model/Internal Control

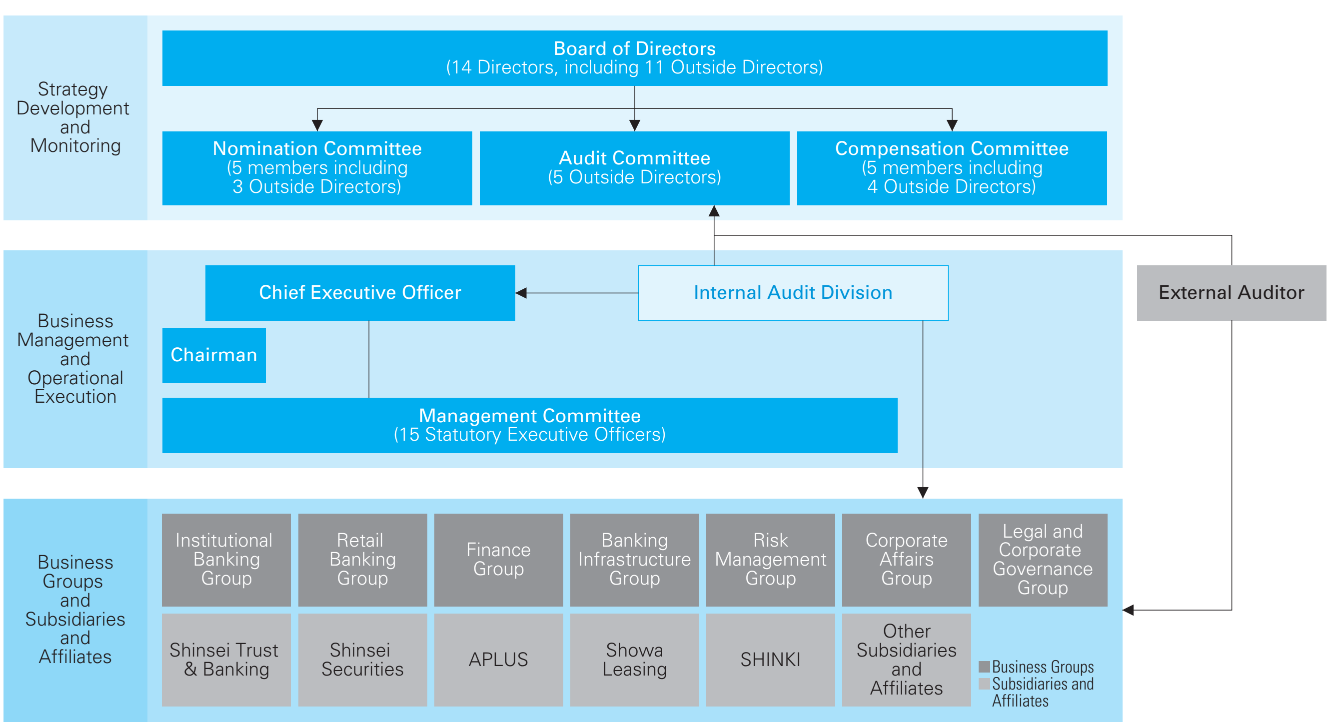
Company with Committees

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 two directors who also hold positions as statutory executive officers and 12 directors (including 11 outside directors) with extensive

Corporate Governance System Chart (as of June 1, 2008)



experience in business, financial, academic and legal fields both in Japan and abroad. These 12 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 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, 2008, four out of the 15 statutory executive officers were expatriates.

With the Bank 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/Investment, Credit, New Business/ Product, SME Loan, IT, Corporate Philanthropy, Basel II Steering and J-SOX Program Steering 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 has 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 a new Bank Rule requiring the Board of Directors to judge transactions with major shareholders in accordance with a set of guidelines. The Bank has 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. Furthermore, we have enhanced the effectiveness of the internal control system by holding internal control meetings in order to ensure that adjustments are made between groups and that balanced and advanced systems are implemented uniformly throughout the Bank as a whole.

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

Legal and Compliance Activities

The Compliance Division and Legal Division form a part of the Legal and Corporate Governance Group headed by the General Counsel. The two Divisions 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. 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. IAD also involves Group subsidiaries' internal audit divisions in its drive for continuous improvement.

RISK MANAGEMENT

Fiscal Year 2007: Dislocation of Financial Markets

Fiscal year 2007 proved to be very challenging for Shinsei Bank, as well as for many other financial institutions around the world. By midsummer 2007, market liquidity had disappeared for certain asset classes, severely impacting the valuation of many of our structured instruments.

In selecting our international investment and lending activities, we have allocated Risk Capital to countries where we could partner with established local institutions and we have focused our efforts where we have a strong track record.

In fiscal year 2007, we felt the impact of the deterioration in our U.S. residential mortgage exposure, and to a lesser extent, the decline in structured credit markets worldwide. When initially making our U.S. investments, we saw the U.S. residential market as large, deep and well diversified. We directed our investments into the relatively safer end of the non-prime residential mortgage spectrum, which we felt was a more attractive opportunity than subprime. However, soon after the subprime market was brought to a virtual standstill, contagion spread to all non-prime assets. As a result of this unprecedented market dislocation, we made prudent mark-downs and reserves for our U.S. residential exposure as well as certain other structured loans and investments.

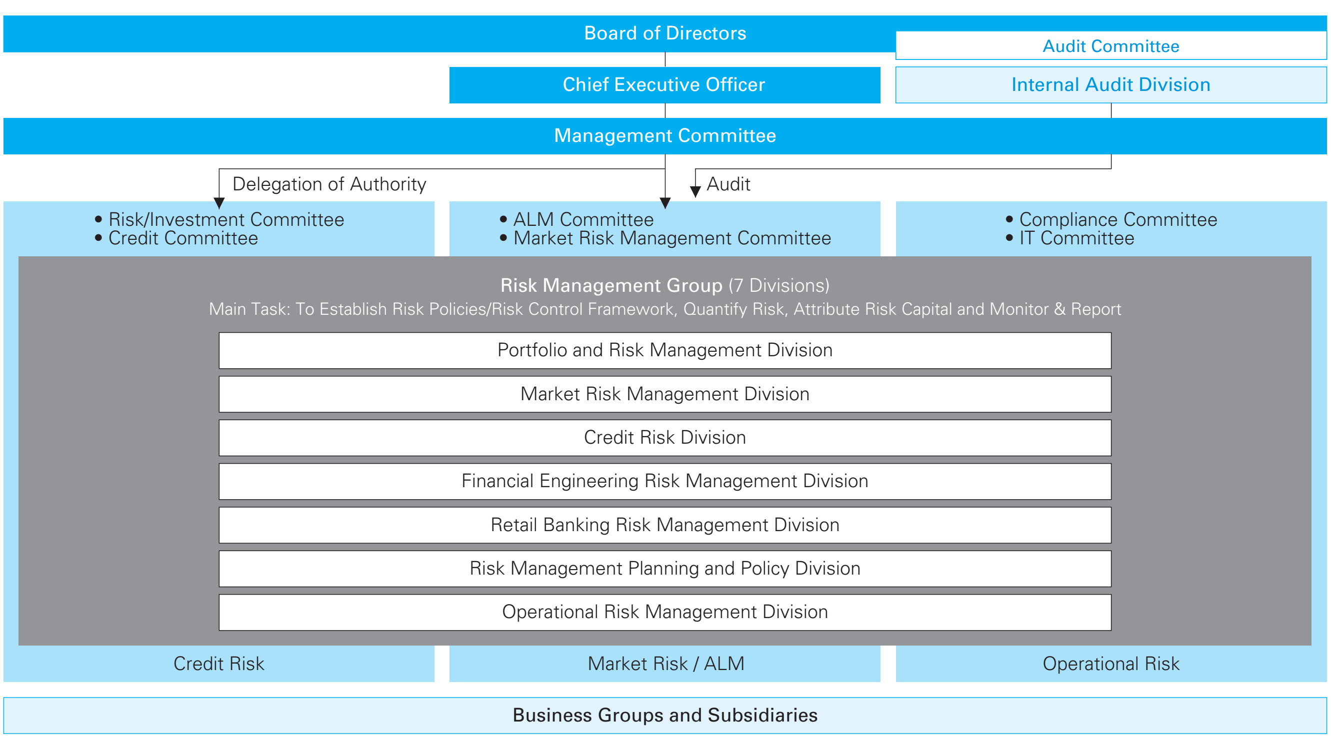
We will continue to carefully monitor markets and our exposures both in Japan and overseas, especially those most vulnerable to credit market turmoil. The Risk Management Group is working closely with our business divisions —"better together"— to proactively identify market trends, carefully manage our portfolio, tighten our investment/lending criteria, curtail certain activities and reallocate Risk Capital accordingly.

Overview

At Shinsei Bank, we emphasize that "risk is an element of our business, concerning all employees." We endeavor to foster a risk-aware culture throughout our organization. We must take risk, and we do so in an intelligent, disciplined and collaborative manner.

The Risk Management Group works in partnership with all business units to ensure that risks are fully acknowledged and properly balanced with returns, while establishing a set of policies and guidelines. Quantitative and consistent risk analysis is regularly provided to decision makers, ensuring that they reach balanced judgments. Ongoing performance is rigorously monitored and reported to senior management so that the Bank's activities are fully analyzed. Risk management is conducted on an integrated basis. The Risk Management Group quantifies a variety of risks throughout the organization, including credit, market and operational risk, along with relevant correlations. In addition to calculating the risk portfolio's expected loss, we also estimate Risk Capital (also known as 'economic capital'), which is our measurement of unexpected loss to a statistical degree

Risk Management System Chart



of confidence agreed upon in partnership with senior management. The Risk Management Group attributes Risk Capital to all transactions and activities, thereby ensuring that risk is managed consistently with other business indicators. Shinsei strives to meet the highest global standards in risk management.

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

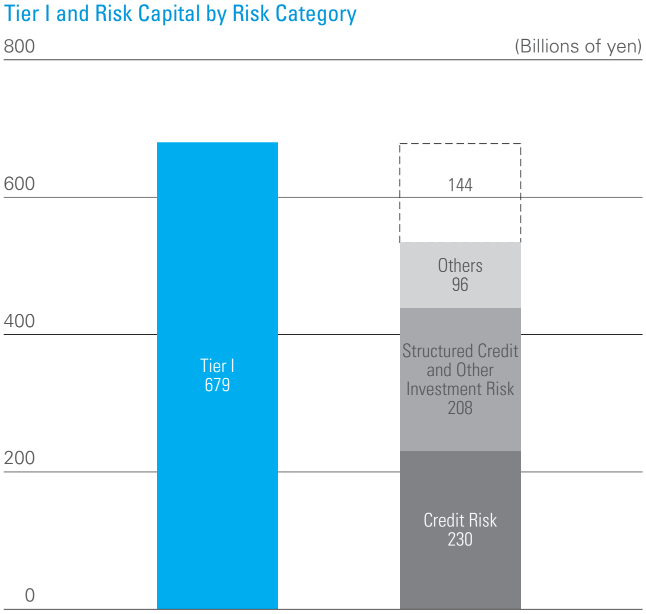
Shinsei Bank sets forth its "Shinsei Bank Risk Management Policy" as a basic management policy in order to recognize risks and implement proactive controls based on an understanding of the total risks faced by the Bank as a whole. Under this Policy, risks are categorized as inherent within a financial 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 to risks inappropriate for quantification, or those that are very difficult to measure, continuous efforts are made to minimize such risks by introducing a system of checks-and-balances to enhance internal audits, and by taking necessary measures, including prevention of risk disclosures.

Shinsei Bank's senior management has delegated certain risk management authority to specific committees including the "Risk/Investment Committee," "Credit Committee," "ALM Committee" and "Market Risk Management Committee." Risk management policies are determined after thorough discussions among staff members with operational experience and expertise.

Tier I and Risk Capital by Risk Category



Assuming no correlation impact between risk categories, Risk Capital usage would be: Credit Risk 301, Structured Credit and Other Investment Risk 274 and Others 116.

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.

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

What is important in credit risk management for individual transactions is to create effective checks and balances within the flow from transaction development to credit approval to after-the-fact control operations. As a general rule, Shinsei Bank assigns approval authorities to the independent credit analysis section in the Risk Management Group. Moreover, the appropriateness of this series of credit-related operations is verified by the Internal Audit Division, which is independent from the business promotion and credit analysis sections, thereby ensuring the check-and-balance function.

Credit approval authorities are not assigned to individuals with specific posts in an exclusive manner. They are operated in a credit determination process that primarily calls for joint approvals, so as to enhance objectivity and transparency of the approval determination processes.

Shinsei Bank actively undertakes credit-related operations in new fields, such as credit trading, in order to meet diverse customer needs and to take advantage of greater profit-earning opportunities in areas where we have the necessary know-how for optimum risk management. In order to manage these products, "Product Programs" are formalized describing the procedures and processes for each new product initiative. Each Product Program defines the strategic intent, investment parameters, delivery process, approval process, risk management guidelines and ongoing monitoring procedures. The Risk Investment Committee approves the risk limits, and designates approval authorities for each Product Program.

(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. The "Credit Rating Committee" makes the final rating determination by joint approval, ensuring 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 basis.

(2) QUANTITATIVE MEASUREMENT OF CREDIT RISK

Quantitative measurement of credit risk means quantitatively 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 which would be incurred in the worst case scenario and which 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.

(4) RETAIL EXPOSURE

While we manage corporate exposures based on obligor/facility ratings, we manage retail exposures on a "pool" basis, where exposures with similar characteristics are assigned to a particular group, and risks are purposely segmented.

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 decided to adopt 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 (the probability of default). The results of the internal rating systems are reflected not only in internal controls related to credit risks, but also in calculations of capital levels required under the regulations.

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 2007 show that there were no days in which the loss amount exceeded VaR on a consolidated basis.

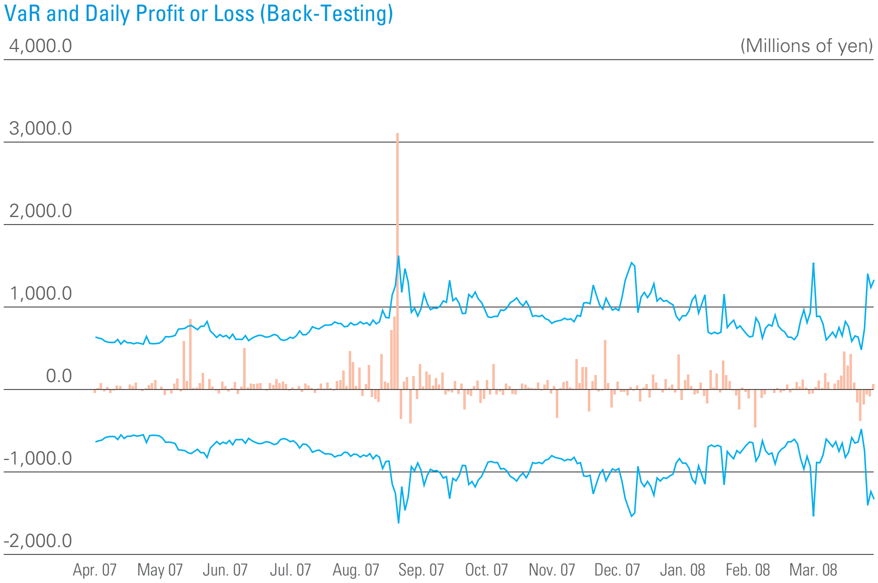
Actual Daily VaR

CONSOLIDATED
(ONE-DAY HOLDING PERIOD, 2.33 STANDARD DEVIATIONS)

Millions of yen

	2007			**2008**		
Fiscal years ended March 31	Average	Maximum	Minimum	Average	Maximum	Minimum
	526	739	287	**850**	**1,622**	**480**

VaR and Daily Profit or Loss (Back-Testing)



Daily P/L — VaR (One day, 2.33 Sigma)

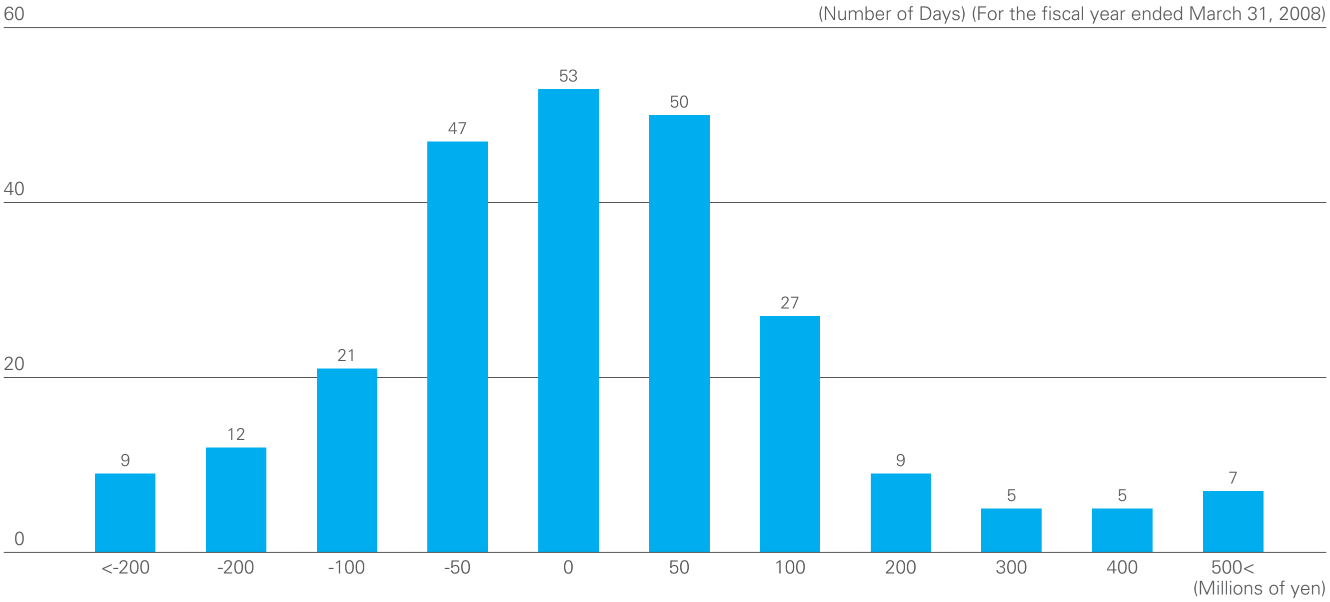
BACK-TESTING ON THE VaR MODEL APPLIED TO THE TRADING DIVISION'S TRANSACTIONS

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

(ONE-DAY HOLDING PERIOD, 2.33 STANDARD DEVIATIONS)

	Millions of yen					
	2007			**2008**		
Fiscal years ended March 31	Average	Maximum	Minimum	Average	Maximum	Minimum
	451	656	243	**743**	**1,388**	**383**

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. The allocated Risk Capital for proprietary trading is less than 10% of total allocated Risk Capital.

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 decline 10 basis points.

Impact of a 10 Basis Point Interest Rate Decline on Yen 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	-0.0	-0.4	0.0	0.5	-0.0
Off-balance sheet	-0.0	0.0	-0.1	0.2	0.6	0.7
Total	-0.1	-0.0	-0.5	0.2	1.1	0.7

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

CORPORATE PHILANTHROPY

Redefining Corporate Philanthropy at Shinsei Bank

In fiscal year 2007, we started to realign our corporate philanthropic initiatives to achieve greater impact from the events and organizations we underwrite. We have established a corporate philanthropy framework that classifies our corporate contributions into three main categories: commercial, strategic and community. We are now applying a value-added model to all corporate philanthropic initiatives that we support through direct cash and non-cash contributions. Through this model we apply a rigorous due-diligence process for appropriate awareness, alignment, promotion, monitoring, measuring and reporting of all our philanthropic activities. Furthermore, we strive to fulfill our promise to all of our stakeholders to fully exemplify our community values.

Corporate Philanthropy Framework

	Philanthropic Initiative Categorization		
	Commercial	Strategic	Community
Target stakeholder:	Customers	Society	Local communities
Objective:	Customer loyalty & appreciation	ESG awareness/social innovation through multi-stakeholder partnerships	Employee engagement

Living our Shinsei Value of Community

Shinsei Bank has made great efforts to support various organizations and events through our direct cash and non-cash contributions. We supported performing and visual arts events, international, cross-cultural exchanges and educational initiatives through direct sponsorship. We support many causes by allowing numerous NPOs, NGOs, foundations, associations and university clubs free use of our central Tokyo headquarters building, which allows them to raise awareness of their missions and advance their causes.

Organizations that held events in our venues throughout the year included the Japan Committee Vaccines for the World's Children, Room to Read, Global Enhancement for Women's Executive Leadership (GEWEL), US-Japan Bridging Foundation, Special Olympics Nippon, Tokyo Sinfonia, Urban Land Institute, Harvard Club of Japan, Toriizaka Arts' Le Thanh Son "*A Brilliant Life*" Exhibition, Mobile Monday Tokyo, Shouhikagaku Rengokai Consumer Finance Symposium, Living Dreams, Heroes' Edutainment and Japan Red Cross. We also hosted university visits from the Harvard Business School, MIT Sloan Management Program, Yonsei University, University of Phoenix, École des Mines de Paris, The Wharton School, INSEAD, Yale, several Japanese universities, as well as alumni events for local and overseas universities.

We are also committed to supporting employees in serving our communities. We have introduced a volunteer leave program, allowing our employees to take time off to support volunteer participation in community-based projects like Special Olympics Nippon National Games in Yamagata, FIT for Charity Run, Hands on Tokyo Day of Service, Run for the Cure, Chiyoda Volunteer Center, Second Harvest Japan and KIDS project.

Building Environmental, Social and Governance (ESG) Awareness and Fostering Social Innovation

As part of our strategic philanthropy platform, Shinsei Bank is focusing on building Environmental, Social and Governance (ESG) Awareness. Our objective is to address specific ESG issues in Japan through convening multi-stakeholder symposiums to raise awareness. We are also underwriting organizations committed to finding innovative ways to address complex ESG issues.

Social Innovation and Social Entrepreneurship

In order to further advance the importance of out-of-the-box thinking when addressing ESG issues, we are deepening our commitment to social innovation and social entrepreneurship. We are committed to investing in social entrepreneurs who act as change agents to find effective solutions to the complex and pressing ESG problems currently facing our planet. Through supporting such innovation, our goal is to dramatically improve the circumstances of the underserved and disadvantaged.

Shinsei Bank has been firmly committed to social entrepreneurship since 2005 when we supported the launch and development of the first non-governmental microfinance organization in Japan, PlaNet Finance Japan, through direct cash and non-cash contribution. PlaNet Finance Japan's main objective has been to raise awareness and provide education to various stakeholders in order to mobilize Japan's human, technological and financial resources in support of the global microfinance movement.

Shinsei Bank is a collaborating sponsor of Ashoka's Social Entrepreneurship DVD Series with Skoll Foundation and Kinokuniya. This DVD series highlights the visionary thinking of social entrepreneurs and thought leaders who have championed long-term and innovative solutions to global sustainability issues. With the launch of this educational resource, we are furthering our commitment to students, academia, think-tanks and institutions of higher learning in promoting awareness of this important area.

We have also created the first corporate partnership in Japan with Social Ventures Partners (SVP) Tokyo, a venture philanthropy organization which aims to support social entrepreneurship in Japan. Shinsei Bank and SVP will provide financial support and professional skills transfer to carefully selected start-up, early- and mid-stage organizations with great potential who address important ESG needs and have not yet received adequate attention or resources in Japan. Through providing expertise in areas of capacity building, our objective is to make recipient organizations sustainable within a defined time frame, enabling them to create significant social impact.

Environmental Sustainability

Shinsei Bank is partnering in an environmental sustainability pilot program with global law firm DLA Piper. The objective is to build environmental awareness through bringing together orphans and volunteers from both companies around the cultural values and tradition of rice planting and harvesting. The sustainability project involves local farmers, environmental specialists, youth and senior citizens.

Shinsei Bank's other commitments to the environment include being a signatory to the Carbon Disclosure Project (CDP6), joining Team Minus 6% and actively participating in the MOTTAINAI Project. On May 2, 2007, we sponsored a lecture at our headquarters by Dr. Wangari Muta Maathai, the first African female Nobel Peace Prize laureate and an active promoter of "MOTTAINAI," to support the 3Rs of *reducing* waste, *reusing* finite resources and *recycling* what we can.

Shinsei Bank & DLA Piper Tokyo: Environmental Sustainability Pilot Program

CORPORATE CULTURE

Strengthening our Corporate Culture

To achieve our vision of becoming "Japan's preeminent financial services firm," we made significant strides to further align our corporate culture with our promise to our customers, as expressed through our strong brand.

Embedding our Values and Winning the Competition for Talent

In fiscal year 2007 we further extended our values education initiative, "Color Your Bank," through internal promotion and a roadshow covering all of our branches throughout Japan. Through this initiative, we were able to provide "better together" opportunities for our employees to learn about our heritage, key areas of business and our values. In addition to providing a highly interactive educational experience, we were also able to bring together people of different levels from various business areas and locales.

We were able to integrate and extend our values alignment effort into a value-aligned competency performance evaluation process. We successfully introduced this concept in fiscal year 2005 for senior executives, extended it to key general managers in fiscal year 2006 and finally to all employees in fiscal year 2007. This process of creating a values-aligned culture at Shinsei Bank was published as a case study by the Harvard Business School in fiscal year 2006 and updated with a follow-up case in fiscal year 2007.

To further align and strengthen our engagement and people practices, we implemented a second employee climate survey in fiscal year 2007. We showed improvement from our fiscal year 2006 survey in most areas, and our management committed to several specific actions to ensure that Shinsei is a place where employees can contribute their best each day. Once again, we were well ahead of market and industry peers in the ratio of female titled managers. As of April 1, 2008, our ratio was 21.4% and we consider this to be a key differentiating factor for our future success. We focused on work-life balance, gender diversity and talent management initiatives in fiscal year 2007 and will continue to ensure that we have rigorous processes to attract, develop, and retain the best talent to win in a highly complex and competitive financial services market.

Building a Great Brand from Within

Over the past seven years, we have established Shinsei Bank as an innovative and unique type of financial institution in Japan. The Shinsei brand is an icon for customers looking for something other than "just another bank." The Shinsei brand embodies the promise that we make to our customers: the promise of ease and convenience, the promise of innovative products and services that speak to their needs, the promise of trust and integrity and the promise of partnership. These qualities are what make us truly unique amongst our competitors, and it is why more and more customers choose us and why we consistently rank among the top tier of financial institutions in the area of customer satisfaction. Customers recognize and appreciate that we have "changed the game" in Japan's financial services industry.

In June 2006, the senior management team decided to further strengthen the Shinsei brand and apply the successful brand principles to all Group companies, including APLUS and Showa Leasing. This decision led to the formation of a Group-wide project team that was given a mandate to create a single "Brand Idea" that could be applied across the Group, aligned with our vision and values and also provide a common statement of purpose to all employees, regardless of their organization. This Brand Idea was launched in September 2007, and since then we have conducted various internal activities to embed this idea throughout the organization, including a tour of many of our branches throughout Japan that culminated in a commitment signing ceremony asking all our employees to agree to adopt our new Brand Idea.

With all employees committed and united under this single Brand Idea, our belief is that Shinsei Bank can further differentiate and establish itself and own a unique position in this competitive market.

SHINSEI VISION AND VALUES

Shinsei Vision

We are Japan's preeminent financial services firm, delivering trusted solutions to grow sustainable value with our customers, our employees and our shareholders

Shinsei Values

CUSTOMER FOCUS

We provide unparalleled solutions with speed and agility based on our customers' evolving needs

INTEGRITY

We demand uncompromising levels of integrity and transparency in all of our activities

ACCOUNTABILITY

We are accountable for results, including the sound application of risk management, compliance, control and customer protection

TEAMWORK

We connect people and resources to provide exceptional customer solutions and sustain a culture where employee ideas are respected and valued

COMMUNITY

We are committed to the development of our employees, our customers, and our shareholders, and will serve the communities in which they live

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.
	September	Established Hibiya Kids Park, an on-site children's day care center for Head Office staff—the first among Japanese banks
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 preferred securities and subordinated notes outside Japan
	March	APLUS acquired Zen-Nichi Shinpan Co., Ltd.
	July	Commenced resolution of public funds
	November	Partially cancelled Shinsei Bank common shares held as treasury stock
		Established strategic alliance with UTI Asset Management Company Pvt. Ltd.
	December	Issued GBP-denominated perpetual subordinated notes
2007	February	Senior management changes and further acceleration of business transformation at APLUS
	April	Achieved two million retail accounts
		Assigned business from UNICO Corporation (through Showa Leasing)
	May	Completed sales of all shares of Life Housing Loan Co., Ltd. to Sumitomo Trust & Banking Co., Ltd.
	June	Launched new *Shinsei Platinum Services*
	July	Reached an agreement with Japan Asia Investment Co., Ltd. to form a business partnership and subscribed to its private placement of new shares
	August	Acquired and cancelled Series 3 Class-B preferred shares
		Established a joint venture engaged in investment management with UTI International Ltd.
	October	Made strategic investment in Duff & Phelps Corporation and signed Referral Agreement
	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
		Launched private equity fund with the Development Bank of Japan
		Concluded an Operational Alliance Agreement with Towa Bank, Ltd.
	March	Agreed to the sale of headquarters building
		Acquired and cancelled Series 2 Class-A Preferred Shares pursuant to a request by shareholder

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 2007" refers to our fiscal year ended March 31, 2008, and other fiscal years are referred to in a similar manner.

OVERVIEW

Shinsei Bank, Limited is a leading diversified financial institution in Japan. 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. Our businesses cover a broad range of products and customer segments which provide us with diversified revenues.

FISCAL YEAR 2007

We reported consolidated net income of ¥60.1 billion in fiscal year 2007, as compared to a net loss of ¥60.9 billion in the previous fiscal year. Fiscal year 2007 was marked by both successes and disappointments. In our consumer finance businesses, APLUS Co., Ltd. (APLUS) reaped the benefits of restructuring in fiscal year 2006 and returned to profitability in fiscal year 2007 and Shinki Co., Ltd. (Shinki), after completion of its restructuring in the first half of fiscal year 2007, generated steady results from the second half of fiscal year 2007. However, our Institutional Banking business was severely impacted by dislocation in the credit markets and our Retail Banking business continued to face slower revenue growth. The decline in net income from such factors was largely offset by the net gain from the sale of our headquarters building amounting to ¥55.7 billion, net of associated expenses, write-offs and reversal of deferred taxes, as well as gains from the sale of Life Housing Loan Co., Ltd. (Life Housing Loan) of ¥11.0 billion, net of taxes and consolidation adjustments.

Consolidated cash basis net income in fiscal year 2007 was ¥71.3 billion. Cash basis net income is defined as Japanese GAAP net income (loss) adjusted to exclude the amortization and impairment of goodwill and other intangible assets, net of tax benefit, attributable to our consumer and commercial finance companies.

U.S. RESIDENTIAL MORTGAGE PORTFOLIO

The slowdown in the U.S. economy, deterioration in global credit markets, liquidity worries surrounding financial institutions and the collapse of the structured products markets caused us to record significant mark-downs and credit provisions during fiscal year 2007.

During fiscal year 2007 we recorded mark-downs of investments related to U.S. residential mortgages of approximately US$157.1 million (¥15.6 billion) during the fiscal year. In addition, we recorded total credit costs related to U.S. residential mortgages amounting to US$134.6 million (¥13.4 billion).

As of March 31, 2008, our net exposure to the U.S. residential mortgage market amounted to less than US$280.8 million, or less than 0.3% of our total assets of approximately US$115.5 billion.

For additional information, see "Exposure to U.S. Residential Mortgage, Securitized Products and Related Investments" on page 100.

GREY ZONE AND CREDIT RESERVES - APLUS AND SHINKI

Legislative changes relating to consumer loan interest rates approved by the Japanese Diet in December 2006 and other developments, including changes in market conditions, have continued to significantly impact the consumer finance sector. As a result, APLUS and Shinki made additional provisions during fiscal year 2007. APLUS recorded additional grey zone reserves for losses on interest repayments of ¥3.7 billion in connection with grey zone refunds recorded during this period. As of March 31, 2008, APLUS' grey zone reserve balance amounted to ¥8.6 billion.

In fiscal year 2007, Shinki, as part of its business transformation, reviewed its credit reserving policy for less creditworthy customers and recorded incremental credit reserves of ¥12.3 billion and increased its grey zone reserves by ¥8.4 billion. Shinki's total outstanding grey zone reserve balance amounted to ¥30.6 billion as of March 31, 2008.

SIGNIFICANT EVENTS

IMPAIRMENT OF INVESTMENT IN APLUS AND SHINKI COMMON SHARES

Legislative changes relating to consumer loan interest rates approved by the Japanese Diet in December 2006 and other developments have had a significant impact on the consumer finance industry.

As a result of these changes, the common share price of APLUS and Shinki declined substantially in the six months ended September 30, 2007, adversely impacting our non-consolidated financial results for that period. This triggered an impairment of Shinsei's investment in APLUS' and Shinki's common shares. Shinsei owned 156,690,390 common shares of APLUS and 25,607,524 common shares of Shinki as of September 30, 2007.

As of September 30, 2007, APLUS' per share common stock price was ¥82 as compared to ¥184 as of March 31, 2007. As a result, an impairment of ¥15.9 billion was recorded in our non-consolidated financial results. This is in addition to a valuation allowance of ¥9.2 billion recorded as of March 31, 2007, which represented the decline in value of these shares between the time of our acquisition of APLUS and March 31, 2007.

As of September 30, 2007, Shinki's per share common stock price was ¥97 as compared to ¥333 as of March 31, 2007. As a result, an impairment of ¥6.0 billion was recorded in our non-consolidated financial results. This is in addition to a valuation allowance of ¥6.6 billion assessed at March 31, 2007, which represented the difference between the book value of these shares and the common share price of Shinki on March 31, 2007.

On March 31, 2008, APLUS' common share price was ¥86 per share and Shinki's common share price was ¥99 per share, representing increases of ¥4 and ¥2 respectively, compared to September 30, 2007.

MANDATORY CONVERSION AND CANCELLATION OF SERIES 3 CLASS-B PREFERRED SHARES

We continued to optimize our capital base during fiscal year 2007.

On August 1, 2007, pursuant to the provisions of Shinsei Bank's Articles of Incorporation concerning the mandatory conversion of its Series 3 Class-B preferred shares owned entirely by the Resolution and Collection Corporation (RCC), we acquired all relevant 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.

MANDATORY CONVERSION AND CANCELLATION OF SERIES 2 CLASS-A PREFERRED SHARES

On March 31, 2008, we acquired and cancelled all of Shinsei's 74,528,000 Series 2 Class-A preferred shares and issued in exchange 269,128,888 of the Bank's common shares at an exchange price of ¥360 per share, pursuant to a request by the Deposit Insurance Corporation of Japan (DIC).

As a result, the DIC and the RCC together now hold 23.89% of the voting rights of Shinsei Bank, making them the second largest shareholder group after the group of investors, including affiliates of J.C. Flowers & Co. LLC. (JCF & Co.), which hold 32.62% of the Bank's voting rights.

NEW CAPITAL RAISING AND TENDER OFFER

During fiscal year 2007, we raised new capital, enhanced our financial stability and deepened ties with key new and existing shareholders. A plan centered on a tender offer from a series of investment vehicles (the Investors) whose investors include affiliates of JCF & Co. and a third-party allotment to the Investors was concluded.

The Investors made a tender offer bid of ¥425 per share for up to 22.7% of our outstanding common shares. In addition, upon approval by Japan's regulatory authorities, we issued ¥50 billion of new common shares by third-party allotment to the Investors. The issue price of the allotment was ¥425 per common share, the same as the price in the tender offer bid. As a result of these transactions, the Investors and affiliates of JCF & Co. now hold 32.62% of Shinsei's common shares.

The new capital will bolster our financial resources, improve our capital ratios and position our Institutional Banking arm to take advantage of investment and acquisition opportunities going forward.

RIGHTS OFFERING OF NEW SHARES BY SHINKI

In December 2007, Shinki raised capital through a rights offering to all shareholders registered as of October 17, 2007, consisting of three new shares of common stock, at ¥100 per share, for every existing share. Shinsei Bank subscribed to the rights offering of new shares proposed by Shinki (76,822,572 shares with a subscription amount of ¥7,682,257,200) on November 27, 2007.

After the completion of the rights offering, Shinsei Bank held 102,430,096 common shares, or 67.7% of Shinki's outstanding shares. Shinki officially became the Bank's subsidiary on December 13, 2007, and was accounted for as a consolidated subsidiary of Shinsei Bank from the second half of fiscal year 2007.

We believe that by deploying our financial and risk management expertise, our advanced information technology know-how and our access to capital, we have started to further improve operational efficiency in our consumer finance business, including Shinki. During the second half of fiscal year 2007, Shinki and its consolidated subsidiaries recorded net income of ¥2.7 billion.

SUBSCRIPTION TO APLUS CLASS-G PREFERRED SHARES

Shinsei subscribed to ¥50 billion in APLUS' Class-G preferred shares. APLUS plans to use the funds to strengthen its capital base as it builds out its portfolio of financial services and upgrades its IT infrastructure.

APLUS is building a new model for consumer finance in Japan and we fully support them in this endeavor. There is a great deal of synergy to be generated from the close relationship between APLUS and Shinsei.

Since acquiring APLUS in September 2004, we have moved quickly to adjust to challenging changes in the market and rebuilding the business in order to deliver top-quality consumer finance services under a new business model. We have worked with APLUS to upgrade its management team, augment risk and compliance controls and strengthen the core sales finance business with a greater focus on partnering with leading local merchants and multinationals. APLUS has also leveraged Shinsei's unique IT systems to redesign its sales finance delivery platform for merchant partners while cutting costs significantly.

We have started to leverage APLUS' consumer finance operations to the benefit of our Retail Banking business with the launch of Shinsei Visa Card and more collaboration is planned. We believe that the subscription to APLUS Class-G preferred shares will help APLUS achieve its medium-term strategies by further enhancing its financial strength.

REGIONAL ASSET MANAGEMENT JOINT VENTURE WITH UTI

On August 8, 2007, we signed a joint venture with UTI International Ltd. (based in Guernsey, a British crown dependency), a 100% subsidiary of UTI Asset Management Company Pvt. Ltd. of India, to set up UTI International (Singapore) Pte Limited (UTI Singapore).

UTI Singapore engages in investment management and distribution of financial products for a broad range of customers. In addition to structuring investment products for customers in Japan, it will also launch and manage funds investing in other jurisdictions throughout Southeast Asia.

SALE OF HEADQUARTERS BUILDING

Our business operations have expanded in recent years and our current headquarters building in the Uchisaiwaicho district of Tokyo no longer meets the needs of our staff and various businesses. As a result, we sold our headquarters building and will move to a new, more cost-efficient location within three years. This is a strategic move that positions us to deploy assets and staff more effectively and will contribute to a broader re-engineering of our business processes. We believe that ownership of a headquarters building is not the most efficient way to deploy our capital. The sale of our headquarters building is an opportunity to realign our front- and back-office operations, invest in Japanese assets and better position ourselves to build greater shareholder value going forward.

Dolphin Japan Investment Y.K., a special purpose company and a consolidated entity within the Shinsei Group, held a beneficiary interest in the headquarters building. As a result of this transaction, Dolphin Japan Investment recorded a gross gain of ¥66.8 billion and Shinsei Bank, as an equity investor in Dolphin Japan Investment through a silent partnership (Tokumei Kumiai), recorded a net gain of approximately ¥55.7 billion.

BUSINESS IMPROVEMENT ORDER

On June 28, 2007, we received a Business Improvement Order (the Order) from the Financial Services Agency (FSA) based on the law concerning Emergency Measures for Strengthening of Financial Functions and the Banking Law.

The non-consolidated financial performance of Shinsei for fiscal year 2006 was substantially below the targets set in our Revitalization Plan agreed with the Japanese government due to significant charges arising from the impairment and valuation allowances relating to our investments in APLUS and Shinki. Consequently, we failed to meet the non-consolidated net income target set in our Revitalization Plan, and as a result, the FSA issued the Order.

The Order required the Bank to submit to the FSA a Business Improvement Plan that incorporates measures to strengthen its profitability, which was duly submitted on July 27, 2007.

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

In fiscal year 2007, we recorded non-consolidated net income of ¥53.2 billion, representing 88.7% of the target set in our Revitalization Plan for that fiscal year.

RECENT DEVELOPMENTS

SALE OF MEGURO BUILDING

On May 14, 2008 the Bank agreed to sell its Meguro Production Center together 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 will allow us to remain in the building until March 2011.

The sale, which closed on May 30, 2008, allows the Bank to carry out its intention to relocate the Production Center as a part of the Bank's ongoing effort to realign its operations and improve efficiency. A gain on disposal of premises and equipment of approximately ¥10.2 billion will be recognized in fiscal year 2008. In addition, restoration and other costs associated with future relocation will be estimated and recognized.

SELECTED FINANCIAL DATA (CONSOLIDATED)

Shinsei Bank, Limited and Consolidated Subsidiaries

As of or for the fiscal years ended March 31, 2008, 2007, 2006, 2005 and 2004

	Billions of yen (except per share data and percentages)				
	2008	2007	2006	2005	2004
Income statement data:					
Net interest income	**¥ 137.7**	¥ 95.4	¥ 82.2	¥ 66.8	¥ 57.1
Net fees and commissions	**40.8**	46.4	45.4	32.4	18.5
Net trading income	**9.0**	17.8	27.5	23.9	2.7
Net other business income	**74.9**	96.6	118.0	54.5	45.0
Total revenue	**262.6**	256.3	273.4	177.8	123.5
General and administrative expenses	**158.7**	150.2	136.5	97.3	70.1
Amortization of goodwill and other intangible assets	**12.5**	20.8	29.4	8.8	0.0
Total general and administrative expenses	**171.2**	171.0	166.0	106.1	70.1
Net credit costs (recoveries)	**73.5**	51.9	30.1	(0.9)	(15.4)
Other gains (losses), net	**74.7**	(99.1)	(3.4)	(7.0)	0.1
Income (loss) before income taxes and minority interests	**92.5**	(65.7)	73.7	65.5	68.9
Current income tax	**4.9**	3.2	3.7	1.4	1.4
Deferred income tax (benefit)	**9.5**	(24.6)	(11.4)	(3.4)	1.1
Minority interests in net income (loss) of subsidiaries	**18.0**	16.6	5.2	0.1	(0.0)
Net income (loss)	**¥ 60.1**	¥ (60.9)	¥ 76.0	¥ 67.4	¥ 66.4
Balance sheet data:					
Trading assets	**¥ 315.2**	¥ 303.3	¥ 193.5	¥ 168.5	¥ 635.0
Securities	**1,980.2**	1,854.6	1,494.4	1,478.2	1,483.2
Loans and bills discounted	**5,622.2**	5,146.3	4,087.5	3,430.4	3,047.0
Customers' liabilities for acceptances and guarantees	**701.7**	754.4	813.4	1,058.1	38.3
Reserve for credit losses	**(145.9)**	(147.2)	(144.8)	(149.7)	(177.9)
Total assets(1)	**11,525.7**	10,837.6	9,405.0	8,576.3	6,343.7
Deposits, including negotiable certificates of deposit	**5,806.6**	5,420.9	4,071.7	3,452.8	2,734.4
Debentures	**662.4**	703.2	1,018.9	1,242.6	1,358.0
Trading liabilities	**205.0**	99.2	149.9	69.1	92.2
Borrowed money	**1,127.2**	1,122.6	1,205.7	1,160.2	334.4
Acceptances and guarantees	**701.7**	754.4	813.4	1,058.1	38.3
Total liabilities	**10,560.5**	9,904.4	8,287.8	7,735.7	5,612.7
Capital stock	**476.2**	451.2	451.2	451.2	451.2
Total equity(1)	**965.2**	933.2	—	—	—
Total liabilities and equity	**¥ 11,525.7**	¥ 10,837.6	¥ 9,405.0	¥ 8,576.3	¥ 6,343.7
Per share data:					
Common equity(1)(2)	**¥ 364.35**	¥ 308.60	¥ 380.20	¥ 329.65	¥ 287.94
Fully diluted equity(1)(2)(3)	**364.35**	355.09	421.62	390.06	378.70
Basic net income (loss)	**38.98**	(45.92)	53.16	46.78	46.03
Diluted net income	**32.44**	—	37.75	34.98	32.75
Capital adequacy data:					
Tier I capital ratio	**7.4%**	8.1%	10.3%	7.0%	16.2%
Total capital adequacy ratio	**11.7%**	13.1%	15.5%	11.8%	21.1%
Average balance data:					
Securities	**¥ 2,058.7**	¥ 1,750.5	¥ 1,721.4	¥ 1,509.4	¥ 1,618.1
Loans and bills discounted	**5,390.3**	4,613.4	3,730.7	3,099.9	3,124.0
Total assets	**11,181.7**	10,121.3	8,990.6	7,460.0	6,525.3
Interest-bearing liabilities	**9,065.8**	7,821.8	6,418.3	5,216.0	4,879.8
Total liabilities	**10,232.4**	9,096.1	8,011.8	—	—
Total equity	**949.2**	894.2	—	—	—
Other data:					
Return on assets	**0.5%**	(0.6)%	0.8%	0.9%	1.0%
Return on equity (fully diluted)(1)(2)	**8.8%**	(8.1)%	9.3%	8.9%	9.4%
Ratio of deposits, including negotiable certificates of deposit, to total liabilities	**55.0%**	54.7 %	49.1%	44.6%	48.7%
Expense-to-revenue ratio(4)	**60.4%**	58.6 %	50.0%	54.7%	56.8%
Non-performing claims, non-consolidated	**¥ 53.1**	¥ 27.9	¥ 42.5	¥ 51.7	¥ 97.3
Ratio of non-performing claims to total claims, non-consolidated	**1.0%**	0.5 %	1.0%	1.4%	2.8%
Net deferred tax assets	**¥ 23.9**	¥ 37.3	¥ 16.3	¥ 4.3	¥ 22.8
Net deferred tax assets as a percentage of Tier I capital	**3.5%**	6.0 %	2.2%	0.9%	3.2%

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.

FISCAL YEAR ENDED MARCH 31, 2008 COMPARED WITH FISCAL YEAR ENDED MARCH 31, 2007 (CONSOLIDATED)

Fiscal year 2007 was marked by both successes and disappointments. Loan balances and net interest income continued to grow in all businesses. Our Consumer Finance businesses in APLUS and Shinki reaped the benefits of restructuring. However, financial performance was impacted by dislocation in the credit markets and the need to record additional provisions related to our consumer finance business as a result of the significant legislative and market changes affecting the industry.

We reported total revenue of ¥262.6 billion for fiscal year 2007, ¥6.3 billion or 2.5% higher than the previous fiscal year, even though we recorded mark-downs relating to our U.S. residential mortgage portfolio amounting to ¥15.6 billion (or US$157.1 million). The increase was partly due to the inclusion of Shinki's revenue from the second half of fiscal year 2007.

General and administrative expenses in fiscal year 2007 were ¥158.7 billion, ¥8.5 billion higher than the same period in the prior fiscal year. This is partly due to the consolidation of Shinki's expenses of ¥5.5 billion for the second half of fiscal year 2007, including allocated expenses. These factors resulted in an expense-to-revenue ratio of 60.4% for fiscal year 2007, as compared to an expense-to-revenue ratio of 58.6% in fiscal year 2006.

Net credit costs of ¥73.5 billion for fiscal year 2007 were ¥21.6 billion higher than fiscal year 2006 largely due to additional credit costs of ¥13.4 billion (or US$134.6 million) relating to our U.S. residential mortgage portfolio, higher credit provisions in Showa Leasing Co., Ltd. (Showa Leasing), in part for less creditworthy customers, and consolidation of Shinki's credit provisions amounting to ¥4.6 billion in the second half of fiscal year 2007. Higher credit provisions were needed in other credit portfolios in our Institutional Banking business as well. The increase in net credit costs was partly offset by lower credit provisions in APLUS.

Amortization of goodwill and other intangible assets associated with the acquisition of consumer and commercial finance companies was ¥12.5 billion for fiscal year 2007 as compared with ¥20.8 billion in the previous fiscal year. The decline largely relates to the significant write-down of goodwill and other intangible assets related to APLUS in the previous fiscal year.

Other gains of ¥74.7 billion largely consisted of (i) gain on sale of our headquarters building of ¥61.7 billion, after write-offs and restoration costs and (ii) gains from the sale of Life Housing Loan of ¥20.3 billion, net of consolidation adjustments. In addition, the tax impact of these gains has been reflected in income taxes (benefit).

Minority interests in net income of subsidiaries for fiscal year 2007, amounting to ¥18.0 billion, largely reflected dividends paid on perpetual preferred securities, minority interests relating to APLUS' preferred shareholders, subsidiaries of Shinseigin Finance Co., Ltd. and Shinki.

As a result, consolidated net income was ¥60.1 billion in fiscal year 2007, as compared to a net loss of ¥60.9 billion in fiscal year 2006, and consolidated cash basis net income for fiscal year 2007 was ¥71.3 billion. Cash basis net income is defined as Japanese GAAP net income (loss) adjusted to exclude the amortization and impairment of goodwill and other intangible assets, net of tax benefit, attributable to our consumer and commercial finance companies.

Our Tier I capital ratio of 7.4% and total capital adequacy ratio of 11.7% as of March 31, 2008, on a Basel II basis, are in line with our corporate targets for maintaining strong capital ratios.

SUPPLEMENTAL FINANCIAL DATA AND RECONCILIATIONS TO JAPANESE GAAP MEASURES

Shinsei Bank, Limited and Consolidated Subsidiaries

For the fiscal year ended March 31, 2008	Billions of yen (except per share data and percentages)
Amortization of goodwill and other intangible assets	
Amortization of other intangible assets	¥ 3.2
Associated deferred tax liability	(1.3)
Amortization of goodwill	9.2
Total amortization of goodwill and other intangible assets, net of tax benefit	¥ 11.2
Reconciliation of net income to cash basis net income	
Net income	¥ 60.1
Amortization of goodwill and other intangible assets, net of tax benefit	11.2
Cash basis net income	¥ 71.3
Reconciliation of basic net income per share to cash basis basic net income per share	
Basic net income per share	¥ 38.98
Effect of amortization of goodwill and other intangible assets, net of tax benefit	7.32
Cash basis basic net income per share	¥ 46.31
Reconciliation of return on assets to cash basis return on assets	
Return on assets	0.5%
Effect of amortization of goodwill and other intangible assets, net of tax benefit	0.1
Cash basis return on assets	0.6%
Reconciliation of return on equity to cash basis return on equity	
Return on equity (fully diluted)	8.8%
Effect of amortization of goodwill and other intangible assets, net of tax benefit	1.7
Cash basis return on equity (fully diluted)	10.5%
Reconciliation of return on equity to return on tangible equity	
Return on equity (fully diluted)	8.8%
Effect of goodwill and other intangible assets(1)	5.0
Return on tangible equity (fully diluted)	13.8%

Note: (1) Net income 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)

Fiscal years ended March 31	2008 Average Balance	2008 Interest	2008 Yield/Rate	2007 Average Balance	2007 Interest	2007 Yield/Rate
Interest-earning assets:						
Loans and bills discounted	**¥ 5,390.3**	**¥ 186.7**	**3.46%**	¥ 4,613.4	¥ 126.8	2.75%
Leased assets and installment receivables	**765.6**	**52.1**	**6.81**	831.3	51.1	6.15
Securities	**2,058.7**	**42.7**	**2.08**	1,750.6	32.3	1.85
Other interest-earning assets[1]	**988.2**	**12.6**	**n.m.[3]**	721.4	13.6	n.m.
Total revenue on interest-earning assets	**¥ 9,202.9**	**¥ 294.3**	**3.20%**	¥ 7,916.8	¥ 223.9	2.83%
Interest-bearing liabilities:						
Deposits, including negotiable certificates of deposit	**¥ 5,734.4**	**¥ 47.9**	**0.84%**	¥ 4,834.0	¥ 34.3	0.71%
Debentures	**679.5**	**3.3**	**0.50**	795.6	3.0	0.38
Subordinated debt	**451.4**	**15.3**	**3.39**	399.5	9.8	2.47
Borrowed money and corporate bonds	**1,105.8**	**15.2**	**1.38**	1,118.1	11.8	1.06
Other interest-bearing liabilities[1]	**1,094.5**	**22.5**	**n.m.**	674.4	18.2	n.m.
Total expense on interest-bearing liabilities	**¥ 9,065.8**	**¥ 104.3**	**1.15%**	¥ 7,821.8	¥ 77.3	0.99%
Non-interest-bearing sources of funds:						
Non-interest-bearing (assets) liabilities, net	**¥ (543.1)**	**—**	**—**	¥ (654.3)	—	—
Total equity excluding minority interest in subsidiaries[2]	**680.2**	**—**	**—**	749.4	—	—
Total interest-bearing liabilities and non-interest-bearing sources of funds	**¥ 9,202.9**	**—**	**—**	¥ 7,916.8	—	—
Net interest margin	**—**	**—**	**2.05%**	—	—	1.84%
Impact of non-interest-bearing sources	**—**	**—**	**0.02**	—	—	0.01
Net revenue on interest-earning assets/yield on interest-earning assets	**—**	**¥ 189.9**	**2.06%**	—	¥ 146.6	1.85%
Reconciliation of total revenue on interest-earning assets to total interest income						
Total revenue on interest-earning assets	**¥ 9,202.9**	**¥ 294.3**	**3.20%**	¥ 7,916.8	¥ 223.9	2.83%
Less: Income on leased assets and installment receivables	**765.6**	**52.1**	**6.81**	831.3	51.1	6.15
Total interest income	**¥ 8,437.3**	**¥ 242.1**	**2.87%**	¥ 7,085.5	¥ 172.8	2.44%
Total interest expenses	**—**	**104.3**	**—**	—	77.3	—
Net interest income	**¥ —**	**¥ 137.7**	**—**	¥ —	¥ 95.4	—

Notes: (1) Other interest-earning assets and other interest-bearing liabilities include interest swaps and fund swaps.
(2) Represents a simple average of the balance at the end of the current period and the balance at the end of the previous period.
(3) 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 assets and installment receivables. We consider income on leased assets and installment receivables to be a component of interest income, but Japanese GAAP does not include income on leased assets and installment receivables in net interest income. Under Japanese GAAP, therefore, income on leased assets and 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 fiscal year 2007 was ¥189.9 billion, an increase of ¥43.3 billion compared to the prior fiscal year. This is partly attributable to the consolidation of Shinki's net revenue on interest-earning assets totaling ¥13.8 billion for the second half of the year. Total revenue on interest-earning assets increased by ¥70.4 billion and total interest expense increased by ¥27.0 billion in fiscal year 2007 compared to the previous fiscal year. The net yield on interest-earning assets was 2.06% in fiscal year 2007, an increase from 1.85% in fiscal year 2006.

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, 2007 to fiscal year ended March 31, 2008	Volume	Rate	Net Change
Increase (decrease) in interest revenue:			
Loans and bills discounted	**¥ 21.3**	**¥ 38.5**	**¥ 59.9**
Leased assets and installment receivables	**(4.0)**	**5.0**	**1.0**
Securities	**5.6**	**4.7**	**10.4**
Other interest-earning assets	**5.0**	**(6.1)**	**(1.0)**
Total revenue on interest-earning assets			**¥ 70.4**
Increase (decrease) in interest expenses:			
Deposits, including negotiable certificates of deposit	**¥ 6.3**	**¥ 7.1**	**¥ 13.5**
Debentures	**(0.4)**	**0.8**	**0.3**
Subordinated debt	**1.2**	**4.1**	**5.4**
Borrowed money and corporate bonds	**(0.1)**	**3.4**	**3.3**
Other interest-bearing liabilities	**11.3**	**(7.0)**	**4.2**
Total expense on interest-bearing liabilities			**¥ 27.0**
Net increase in net revenue on interest-earning assets			**¥ 43.3**

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

Total revenue on interest-earning assets	**¥ 70.4**
Less: Income on leased assets and installment receivables	**1.0**
Total interest income	**¥ 69.3**
Total interest expenses	**27.0**
Net increase in net interest income	**¥ 42.2**

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 ¥70.4 billion increase in total revenue on interest-earning assets in fiscal year 2007 is attributable primarily to higher volume of and yield on loans and bills discounted and securities, and the inclusion of net interest income of Shinki for the second half of fiscal year 2007. The increase in the average balance of loans and bills discounted was primarily the result of an increase in demand for institutional loans and growth in retail housing loans as well as the addition of Shinki's interest-earning assets.

The ¥27.0 billion increase in total interest expense was primarily due to the increased average rates on and increased average balances of deposits, negotiable certificates of deposit (NCD) and subordinated debt, interest-bearing liabilities of Shinki and an increase in other interest-bearing liabilities. The increase in deposits and NCD interest expense was primarily due to an increase in the average rate to 0.84% for fiscal year 2007 from 0.71% for the previous fiscal year that reflected an interest rate increase by the Bank of Japan and, to a lesser extent, an increase in the average balance to ¥5,734.4 billion from ¥4,834.0 billion.

The increase in subordinated debt interest expense was due to an increase in the average rate, which was 3.39% for fiscal year 2007, compared to 2.47% for the previous fiscal year and, to a lesser extent, an increase in the average balance outstanding to ¥451.4 billion for fiscal year 2007 compared to ¥399.5 billion for the previous fiscal year. The increase in the average balance outstanding was primarily due to an increase in subordinated debt related to the issuance of £400 million of Upper Tier 2 Perpetual Subordinated Notes in December 2006. The interest expense increase of ¥4.2 billion in other interest-bearing liabilities primarily relates to funding through call money and interest and currency swap expenses associated with foreign currency-denominated and overseas transactions.

NET FEES AND COMMISSIONS

Net fees and commissions mainly includes 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 ¥40.8 billion were earned in fiscal year 2007, a decrease of ¥5.6 billion compared to the previous fiscal year, mainly reflecting absence of fees from securitization business and lower fees in APLUS from shopping credit and other financing products due to rationalization of its customer base. However, Retail Banking's asset management business continues to grow, with total fees of ¥9.6 billion during fiscal year 2007, an increase of ¥0.3 billion compared to fiscal year 2006.

NET TRADING INCOME

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

TABLE 3. NET TRADING INCOME (CONSOLIDATED)

	Billions of yen		
Fiscal year ended March 31	**2008**	2007	% Change
Income (loss) from trading securities	**¥ (0.6)**	¥ 1.5	(140.2)
Income from securities held to hedge trading transactions	**0.3**	6.3	(94.5)
Income from trading-related financial derivatives	**9.3**	10.2	(8.7)
Other, net	**(0.0)**	(0.3)	93.7
Net trading income	**¥ 9.0**	¥17.8	(49.0)

Please see Note 27 on page 134 for details.

Net trading income reflects revenues from customer-driven transactions as well as transactions undertaken for our own trading purposes (that is, transactions seeking to capture gains arising from short-term changes in market value). In addition to investments in securities, it encompasses income we derive from providing derivative products, including structured deposits, to retail and institutional customers.

During the fiscal year ended March 31, 2008, we earned ¥9.0 billion in net trading income, as compared to ¥17.8 billion in the prior fiscal year. The decline in income (loss) from trading securities of ¥2.1 billion was attributable to trading Japanese government bonds and equity derivatives activities. Income from securities held to hedge trading transactions declined to ¥0.3 billion, mainly as a result of lower bond trading activities. In fiscal year 2007, the overall decline in income from trading-related financial derivatives resulted mainly from a decrease in option income generated in connection with interest-linked structured deposits provided mainly to retail customers; such option income declined from ¥5.7 billion to ¥1.3 billion due to lower demand for these products.

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 2008	2007	% Change
Income on monetary assets held in trust, net	**¥ 20.9**	¥ 14.7	42.4
Net gain (losses) on securities	**(10.4)**	15.1	(168.9)
Net gain on foreign exchange	**2.7**	10.4	(74.1)
Net gain on other monetary claims purchased	**15.4**	19.9	(22.9)
Other business income (losses), net (1)			
Income (losses) from derivatives for banking purposes, net	**0.5**	(6.7)	107.9
Equity in net income (losses) of affiliates	**(8.3)**	(12.7)	34.7
Gain on lease cancellation and other lease income, net	**2.7**	2.3	17.6
Other, net	**(0.7)**	2.3	(133.3)
Net other business income before income on leased assets and installment receivables, net	**22.8**	45.4	(49.8)
Income on leased assets and installment receivables, net	**52.1**	51.1	2.0
Net other business income	**¥ 74.9**	¥ 96.6	(22.4)

Note: (1) Please see Note 28 on page 134 for details.

Net other business income mainly includes income on leased assets and installment receivables, net gain (losses) on securities and foreign exchanges, net gain on other monetary claims purchased for trading purposes, income on monetary assets held in trust and equity in net income (losses) of affiliates. For purposes of our analysis of results of operations, we include income on leased assets and installment receivables in our discussion of net revenue on interest-earning assets because we consider such income to be similar in character to our interest income.

Net other business income for the fiscal year ended March 31, 2008 was ¥74.9 billion. This included income of ¥52.1 billion from the leased assets and installment receivables business of APLUS and Showa Leasing. Excluding such income, our net other business income for fiscal year 2007 was ¥22.8 billion, a decline of ¥22.6 billion compared with the previous fiscal year. The principal reason for the decline was the incurrence of ¥10.4 billion of net losses on securities as compared to net gain on securities of ¥15.1 billion in the prior fiscal year. In fiscal year 2007, we recorded mark-downs relating to the U.S. residential mortgage portfolio amounting to ¥15.6 billion. In addition, the decline reflects subdued securities activities in our capital markets business. This was partly offset by income from corresponding equity derivatives included in income from derivatives for banking purposes, net of ¥0.5 billion, which improved ¥7.3 billion as compared with the prior fiscal year.

Equity in net losses of affiliates declined to ¥8.3 billion, largely reflecting a decline in the net loss of our equity-method affiliate (until September 30, 2007), Shinki, from ¥14.6 billion to ¥6.8 billion, net of consolidation adjustments. Shinki's net loss was due primarily to additional credit and grey zone provisions required for its business restructuring.

Income on monetary assets held in trust should be considered together with net gains on other monetary claims purchased for trading purposes as both of these income categories include credit trading revenue. In fiscal year 2007, we completed 53 new credit trading transactions with an aggregate investment amount of ¥101.7 billion. In fiscal year 2007, income on monetary assets held in trust for trading purposes increased from ¥14.7 billion to ¥20.9 billion and net gain on other monetary claims purchased for trading purposes amounted to ¥15.4 billion as opposed to ¥19.9 billion in the previous fiscal year, consisting primarily of income from credit trading transactions.

Net gain on foreign exchange declined from ¥10.4 billion to ¥2.7 billion due, in part, to lower fees on foreign exchange transactions as well as lower option income in connection with currency-linked structured deposits provided to retail customers, which declined from ¥5.6 billion to ¥4.4 billion.

TOTAL REVENUE

Due to the factors described above, total revenue in the fiscal year ended March 31, 2008 was ¥262.6 billion, as compared with ¥256.3 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	**2008**	2007	% Change
Personnel expenses	**¥ 64.5**	¥ 62.7	2.9
Premises expenses	**18.6**	17.3	7.6
Technology and data processing expenses	**21.8**	20.1	8.4
Advertising expenses	**9.9**	10.9	(9.2)
Consumption and property taxes	**8.4**	7.3	14.5
Deposit insurance premium	**3.4**	2.8	21.0
Other general and administrative expenses	**31.9**	28.8	10.5
General and administrative expenses	**158.7**	150.2	5.7
Amortization of goodwill and other intangible assets	**12.5**	20.8	(39.7)
Total general and administrative expenses	**¥ 171.2**	¥171.0	0.2

General and administrative expenses (excluding amortization of goodwill and other intangibles) for fiscal year 2007 were ¥158.7 billion compared with ¥150.2 billion for the previous fiscal year. The increase was partly due to the inclusion of Shinki's expenses of ¥5.5 billion, including allocated expenses, for the second half of the fiscal year as Shinki became a consolidated subsidiary from October 1, 2007. The increase in expenses was also the result of the continued need for strategic investments to grow the Institutional and Retail Banking businesses.

The expense increase was partly offset by continual expense rationalization activities in APLUS.

As a result, in fiscal year 2007, our expense-to-revenue ratio was 60.4% as compared to an expense-to-revenue ratio of 58.6% in fiscal year 2006.

Personnel expenses of ¥64.5 billion were ¥1.8 billion higher than the previous fiscal year. The increase was largely due to new employees hired in the Institutional Banking business to support its business expansion and the inclusion of Shinki's personnel expenses for the six months ended March 31, 2008. This was partly offset by lower personnel expenses in APLUS reflecting expense savings realized through a voluntary retirement program initiated during fiscal year 2006.

Non-personnel expenses increased by ¥6.7 billion compared to the prior fiscal year. The increase was largely related to customer-driven activities such as the deposit insurance premium on retail deposits, consumption tax and outsourcing expenses and the inclusion of Shinki's non-personnel expenses of ¥4.0 billion for the six months ended March 31, 2008. Advertising expenses were ¥1.0 billion lower than the previous fiscal year, reflecting optimization of advertising activities in the Retail Banking business. Other general and administrative expenses, consisting of outsourcing and temporary staff expenses, professional fees, printing and stationery expenses, were ¥31.9 billion compared to ¥28.8 billion in the prior fiscal year. The increase of ¥3.0 billion is partly attributable to higher outsourcing expenses and professional fees.

AMORTIZATION OF GOODWILL AND OTHER INTANGIBLES

The acquisition of majority stakes in APLUS (including Zen-Nichi Shinpan Co., Ltd. (Zen-Nichi Shinpan)), Showa Leasing and Shinki resulted in the creation of goodwill and other intangibles. The amortization of goodwill and other intangibles was ¥12.5 billion for the fiscal year ended March 31, 2008. This includes amortization of goodwill and other intangibles attributable to APLUS (including Zen-Nichi Shinpan), Showa Leasing and Shinki in the amount of ¥8.7 billion, ¥3.3 billion and ¥0.4 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, 2008 and 2007.

TABLE 6. NET CREDIT COSTS (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2008**	2007	% Change
Losses on write-off of loans	**¥ 3.1**	¥ 1.5	99.8
Net provision of reserve for loan losses:			
Net provision of general reserve for loan losses	**22.8**	33.5	(32.0)
Net provision of specific reserve for loan losses	**50.4**	15.6	222.7
Net provision of reserve for loan losses to restructuring countries	**0.0**	0.0	69.4
Subtotal	**73.3**	49.2	48.9
Net provision (reversal) of specific reserve for other credit losses	**(6.3)**	(0.8)	(683.2)
Other credit costs relating to leasing business	**3.4**	1.9	79.8
Net credit costs	**¥73.5**	¥51.9	41.7

Please see Note 29 on page 134 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 APLUS, Showa Leasing and Shinki, also maintain general and specific reserves for loan losses.

We recorded net credit costs of ¥73.5 billion for the fiscal year ended March 31, 2008 compared with net credit costs of ¥51.9 billion for the fiscal year ended March 31, 2007. The increase in credit costs was partly due to credit costs related to the U.S. residential mortgage portfolio amounting to ¥13.4 billion, as well as the inclusion of Shinki's credit provisions of ¥4.6 billion for the second half of fiscal year 2007.

OTHER GAINS, NET

Other gains, net were ¥74.7 billion for the fiscal year ended March 31, 2008, as compared to other losses, net of ¥99.1 billion during the previous fiscal year. Other gains, net in fiscal year 2007 mainly consisted of (i) gain on sale of the headquarters building of ¥61.7 billion, after write-offs and restoration costs, and (ii) gains from the sale of Life Housing Loan of ¥20.3 billion. In addition, the tax impact of these gains has been reflected in income taxes (benefit).

This was partly offset by the absence of gains on the sale of shares of BlueBay Asset Management Limited amounting to ¥11.6 billion, recorded in fiscal year 2006.

Please see Note 30 on page 134 for details.

INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS

As a result of the foregoing, income before income taxes and minority interests totaled ¥92.5 billion for the fiscal year ended March 31, 2008, as compared to losses before income taxes and minority interests of ¥65.7 billion in the previous fiscal year.

INCOME TAXES (BENEFIT)

For the fiscal year ended March 31, 2008, we recorded ¥4.9 billion in current income tax, ¥1.6 billion higher than for the previous fiscal year mainly related to local income tax of ¥2.8 billion paid by our subsidiary, Shinsei Property Finance Ltd. in connection with the sale of Life Housing Loan. We also recorded a deferred income tax expense of ¥9.5 billion, largely arising from sale of Life Housing Loan and the headquarters building.

MINORITY INTERESTS IN NET INCOME (LOSS) OF SUBSIDIARIES

Minority interests in net income (loss) of subsidiaries of ¥18.0 billion for the fiscal year ended March 31, 2008 largely reflects interest payments relating to our issuance of hybrid Tier I capital in the international market in February and March 2006 amounting to US$1,475 million and minority interests relating to APLUS' preferred shareholders, subsidiaries of Shinseigin Finance Co., Ltd. and Shinki.

NET INCOME (LOSS)

As a result, our consolidated net income was ¥60.1 billion for fiscal year 2007, as compared to a net loss of ¥60.9 billion for fiscal year 2006.

We report both Japanese GAAP net income (loss) and cash basis net income in order to provide greater transparency and understanding of our underlying performance. For fiscal year 2007, consolidated cash basis net income was ¥71.3 billion, as compared to ¥35.3 billion in the previous fiscal year. Cash basis net income is defined as Japanese GAAP net income (loss) adjusted to exclude the amortization and impairment of goodwill and other intangible assets, net of tax benefit, attributable to our consumer and commercial finance companies.

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 intangibles, 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 7. RECONCILIATION FROM REPORTED-BASIS RESULTS TO OPERATING-BASIS RESULTS (CONSOLIDATED)

	Billions of yen					
	2008			2007		
Fiscal years ended March 31	Reported-basis	Reclassifications	Operating-basis	Reported-basis	Reclassifications	Operating-basis
Revenue:						
Net interest income	¥ 137.7	¥ —	¥ 137.7	¥ 95.4	¥ —	¥ 95.4
Non-interest income[1]	124.9	0.0	125.0	160.8	11.9	172.8
Total revenue	262.6	0.0	262.7	256.3	11.9	268.3
General and administrative expenses[2]	158.7	(0.9)	157.8	150.2	(0.2)	149.9
Amortization of goodwill and other intangible assets	12.5	(12.5)	—	20.8	(20.8)	—
Total general and administrative expenses	171.2	(13.4)	157.8	171.0	(21.0)	149.9
Net business profit/Ordinary business profit[3]	91.3	13.5	104.9	85.3	33.0	118.3
Net credit costs	73.5	—	73.5	51.9	—	51.9
Amortization of goodwill and other intangible assets	—	12.5	12.5	—	20.8	20.8
Other gains (losses), net[1][2]	74.7	(1.0)	73.7	(99.1)	(12.2)	(111.3)
Income (loss) before income taxes and minority interests	92.5	—	92.5	(65.7)	—	(65.7)
Income taxes (benefit) and minority interests	32.4	—	32.4	(4.7)	—	(4.7)
Net income	¥ 60.1	¥ —	¥ 60.1	¥ (60.9)	¥ —	¥ (60.9)

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

We continue to expand our products and broaden our customer base through our business lines: Institutional Banking, Consumer and Commercial Finance and Retail Banking. During the fiscal year we promoted interaction between various businesses, leading to an increase in synergies in terms of business enhancing cross-sales and referrals, joint business ventures and cost-saving opportunities.

Management monitors the performance of these business lines on an operating basis. The business lines discussion below covers the operating-basis ordinary business profit (loss) after net credit costs (recoveries) of these business lines and a fourth category of ALM/Corporate/Other.

Our business lines cover a broad range of businesses and customer segments which provide us with diversified revenues.

In fiscal year 2007, ordinary business profit after net credit costs was ¥31.3 billion, or ¥35.0 billion lower than the previous fiscal year largely due to mark-downs and credit costs for exposure to the U.S. residential mortgage market totaling ¥29.1 billion, absence of gain from sale of Shinsei's investment in BlueBay of ¥11.6 billion, higher credit costs in Showa Leasing and lower revenues in Retail Banking. This was partly offset by improvement in APLUS' and Shinki's ordinary business profit (loss) as compared to the prior fiscal year.

TABLE 8. OPERATING-BASIS ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS (RECOVERIES) BY BUSINESS LINE (CONSOLIDATED)

	Billions of yen				
	2008				
For the fiscal year ended March 31	Institutional Banking	Consumer and Commercial Finance	Retail Banking	ALM/ Corporate/ Other[1]	Total
Net interest income	**¥ 46.4**	**¥ 53.5**	**¥ 21.0**	**¥ 16.7**	**¥ 137.7**
Non-interest income (expense)	**44.7**	**73.7**	**13.0**	**(6.5)**	**125.0**
Total revenue	**91.2**	**127.3**	**34.0**	**10.1**	**262.7**
General and administrative expenses	**49.6**	**66.2**	**40.1**	**1.7**	**157.8**
Ordinary business profit (loss)	**41.5**	**61.0**	**(6.0)**	**8.3**	**104.9**
Net credit costs	**19.6**	**52.3**	**0.3**	**1.3**	**73.5**
Ordinary business profit (loss) after net credit costs	**¥ 21.9**	**¥ 8.7**	**¥ (6.3)**	**¥ 7.0**	**¥ 31.3**

	Billions of yen				
	2007				
For the fiscal year ended March 31	Institutional Banking	Consumer and Commercial Finance	Retail Banking	ALM/ Corporate/ Other[1]	Total
Net interest income	¥ 29.3	¥ 43.0	¥ 17.5	¥ 5.4	¥ 95.4
Non-interest income (expense)	87.9	69.1	18.5	(2.8)	172.8
Total revenue	117.3	112.2	36.1	2.6	268.3
General and administrative expenses	43.4	68.1	37.7	0.6	149.9
Ordinary business profit (loss)	73.8	44.0	(1.5)	2.0	118.3
Net credit costs (recoveries)	(4.0)	53.8	0.1	1.9	51.9
Ordinary business profit (loss) after net credit costs (recoveries)	¥ 77.8	¥ (9.8)	¥ (1.6)	¥ 0.0	¥ 66.4

Note: (1) ALM/Corporate/Other largely consists of results of corporate treasury activities and corporate level expenses.

INSTITUTIONAL BANKING

In the Institutional Banking business, the product specialists and relationship managers work closely together to increase the number of products per customer. Corporate lending increased as we continue to offer new solutions. Relationships with regional banks and local financial institutions, with whom the business works as partners, continue to strengthen. The Institutional Banking business continues to forge long-standing relationships with its real estate customers. The Japanese public sector has been showing strong potential as we offer various innovative solutions.

During fiscal year 2007, the Institutional Banking business generated total revenue of ¥91.2 billion. This is ¥26.0 billion lower than the previous fiscal year. The business' generally steady performance was negatively impacted by mark-downs of ¥15.6 billion for exposure to the U.S. residential mortgage market and absence of gain from investment in BlueBay of ¥11.6 billion.

In fiscal year 2007, general and administrative expenses were ¥49.6 billion, a ¥6.1 billion increase compared to the previous fiscal year. The increase was largely due to new employees hired to support business expansion. As a result, ordinary business profit for fiscal year 2007 was ¥41.5 billion, a decline of ¥32.2 billion, or 43.7%, as compared to the previous fiscal year. Net credit costs for the period of ¥19.6 billion were partly attributable to credit costs of ¥13.4 billion related to the U.S. residential mortgage portfolio. Higher credit provisions were also required in other structured credit portfolios.

The expense-to-revenue ratio of this business was 54.4% for fiscal year 2007.

TABLE 9. INSTITUTIONAL BANKING REVENUE BY PRODUCT (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	2008	2007[1]	% Change
Institutional Banking:			
Credit trading	¥ 22.0	¥ 17.1	29.1
Non-recourse real estate finance	19.2	17.8	7.9
Basic banking[2]	16.4	18.4	(10.8)
Foreign exchange, derivatives, equity-related	12.6	12.8	(2.2)
Principal investments	11.5	14.1	(18.4)
Other capital markets	1.2	6.3	(80.9)
Securitization	0.5	11.2	(95.4)
Other products	7.5	19.2	(60.9)
Total revenue	¥ 91.2	¥ 117.3	(22.2)

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.

During fiscal year 2007, the Institutional Banking business delivered strong results in credit trading and non-recourse finance activities. The capital markets and securitization businesses were impacted by the dislocation in credit markets generally and volatility in the foreign exchange and equity markets challenged the foreign exchange, derivatives and equity-related revenues.

Revenue diversification is essential to ensure earnings stability in this business line. The business continued to see an increase in demand for institutional loans and ongoing growth in asset prices contributed to strong performance in the credit trading business.

In credit trading, we invest in various kinds of credit—primarily distressed assets, non-performing loans and sub-performing loans—in both the domestic and international markets. The business momentum in this business resulted in the conclusion of 53 new transactions with an aggregate investment amount of ¥101.7 billion and generated total revenues of ¥22.0 billion in fiscal year 2007, an increase of ¥4.9 billion compared to the previous fiscal year.

The non-recourse real estate finance business concluded 159 transactions. The non-recourse real estate balance, both loans and bond structures, increased ¥52.6 billion to ¥974.8 billion in fiscal year 2007. This business generated revenue of ¥19.2 billion as compared to ¥17.8 billion during the previous fiscal year.

Basic Banking includes revenue from corporate loans, deposits and debentures. In fiscal year 2007, the balance of corporate loans increased by 1.0% to reach ¥2,856.1 billion at March 31, 2008. As a result, revenues from corporate loans amounted to ¥14.2 billion for the fiscal year ended March 31, 2008 despite margin compression.

The decline in securitization and other capital markets revenues largely relates to mark-downs of ¥15.6 billion relating to the U.S. residential mortgage portfolio and general slow-down in the business due to the dislocation in credit markets. The decrease in revenue from other products largely relates to the absence in fiscal year 2007 of the ¥11.6 billion gain on the sale of our strategic investment in BlueBay Asset Management Limited recorded in fiscal year 2006.

CONSUMER AND COMMERCIAL FINANCE

The Consumer and Commercial Finance (CCF) business provides consumer finance, commercial finance and specialty property finance for both consumers and small businesses. This business has been built up through the acquisition of a number of subsidiaries which now form an integral part of the Shinsei Bank Group with a dedicated team providing operational and managerial direction to each subsidiary to leverage core competencies and intra-group synergies.

The legislative and market changes affecting the consumer finance industry during the fiscal year 2006 continued to have a significant impact on the financial performance of our consumer finance subsidiary, APLUS, and our 36.4% owned affiliate, Shinki, which became a 67.7% owned consolidated subsidiary from the second half of fiscal year 2007. APLUS reaped the benefits of various restructuring initiatives in fiscal year 2006 and returned to profitability in fiscal year 2007. Shinki's restructuring initiatives during fiscal year 2006 and in the first half of fiscal year 2007 resulted in its business achieving profitability from the second half of fiscal year 2007. Core financial performance of Showa Leasing remained steady, although the overall performance of Showa Leasing's business was impacted by higher credit reserves related to less creditworthy customers.

In fiscal year 2007, the CCF business contributed total revenue of ¥127.3 billion, an increase of ¥15.1 billion, or 13.5%, as compared to fiscal year 2006. This includes Shinki's revenues of ¥13.2 billion for the second half of fiscal year 2007. The expense decrease was largely due to continued expense rationalization activities in APLUS, partly offset by inclusion of Shinki's expenses of ¥5.5 billion for the second half of fiscal year 2007, including allocated expenses. As a result, the business generated ordinary business profit of ¥61.0 billion in fiscal year 2007, an increase of ¥16.9 billion from the previous fiscal year. Fiscal year 2007 credit costs reflect inclusion of Shinki's credit costs of ¥4.6 billion for the six months ended March 31, 2008 and higher credit provisions in Showa Leasing partly relating to less creditworthy customers. The increases in credit costs of Shinki and Showa Leasing were offset by the decline in APLUS' credit costs due to rationalization of its customer base. As a result, ordinary business profit after net credit costs was ¥8.7 billion in fiscal year 2007, an increase of ¥18.5 billion compared to the previous fiscal year.

TABLE 10. CONSUMER AND COMMERCIAL FINANCE ORDINARY BUSINESS PROFIT (LOSS) AFTER NET CREDIT COSTS BY SUBSIDIARY (CONSOLIDATED)[1]

	Billions of yen				
	2008				
For the fiscal year ended March 31	APLUS	Showa Leasing	Shinki	Other Subsidiaries	Consumer and Commercial Finance
Net interest income (expense)	**¥ 41.8**	**¥ (6.2)**	**¥ 13.7**	**¥ 4.2**	**¥ 53.5**
Non-interest income (expense)	**48.2**	**32.1**	**(7.4)**	**0.8**	**73.7**
Total revenue	**90.0**	**25.8**	**6.3**	**5.0**	**127.3**
General and administrative expenses	**45.1**	**12.8**	**5.6**	**2.6**	**66.2**
Ordinary business profit	**44.8**	**13.0**	**0.7**	**2.4**	**61.0**
Net credit costs	**38.2**	**8.7**	**4.6**	**0.7**	**52.3**
Ordinary business profit (loss) after net credit costs	**¥ 6.6**	**¥ 4.3**	**¥ (3.9)**	**¥ 1.6**	**¥ 8.7**

	Billions of yen				
	2007[2]				
For the fiscal year ended March 31	APLUS	Showa Leasing	Shinki	Other Subsidiaries	Consumer and Commercial Finance
Net interest income (expense)	¥ 39.4	¥ (3.5)	¥ —	¥ 7.1	¥ 43.0
Non-interest income (expense)	53.8	28.6	(14.6)	1.3	69.1
Total revenue	93.2	25.0	(14.6)	8.5	112.2
General and administrative expenses	53.3	11.2	—	3.5	68.1
Ordinary business profit (loss)	39.8	13.7	(14.6)	4.9	44.0
Net credit costs	49.1	3.0	—	1.7	53.8
Ordinary business profit (loss) after net credit costs	¥ (9.2)	¥ 10.7	¥(14.6)	¥ 3.2	¥ (9.8)

Notes: (1) Net of consolidation adjustments, if applicable.
(2) Prior period has been adjusted to conform to current period presentation.

For the fiscal year ended March 31, 2008, APLUS recorded total revenue of ¥90.0 billion on a consolidated basis from its installment shopping credit, credit cards businesses and loan guarantees. This represented 70.7% of total CCF business revenue. APLUS' ordinary business profit after net credit costs of ¥6.6 billion was ¥15.9 billion higher than for fiscal year 2006. APLUS recorded net credit costs of ¥38.2 billion in fiscal year 2007, or ¥10.9 billion lower than for fiscal year 2006. This reflects rationalization of APLUS' business model and stricter credit management. APLUS and its consolidated subsidiaries generated net income of ¥6.1 billion, including Zen-Nichi Shinpan, in fiscal year 2007.

Showa Leasing is our commercial finance platform and provides general and auto leasing, lending and other financing solutions to small- and medium-sized companies and automobile dealerships. Showa Leasing recorded revenue of ¥25.8 billion for fiscal year 2007, an increase of ¥0.7 billion, or 3.1%, compared to fiscal year 2006. The increase in revenue in fiscal year 2007 is comprised of continued growth in business and synergies with Institutional Banking. Higher credit provisions and write-offs were required in Showa Leasing in fiscal year 2007 partly in relation to less creditworthy customers.

Revenue of ¥6.3 billion attributed to Shinsei for fiscal year 2007 reflects both Shinsei's equity in the non-consolidated net loss of Shinki for the first half of the fiscal year, amounting to ¥6.8 billion net of consolidation adjustments, as well as Shinki's revenues of ¥13.2 billion for the second half of the fiscal year. Shinki's net loss for the first half of the fiscal year related to its recording of additional credit provisions and grey zone reserves as part of its business restructuring. Shinki and its consolidated subsidiaries generated net income of ¥2.7 billion for the six months ended March 31, 2008.

Other subsidiaries mainly include financial results of Shinsei Property Finance and the CCF headquarters.

APLUS' grey zone payments and write-offs amounted to ¥5.4 billion in fiscal year 2007. The business made new grey zone related provisions of ¥3.7 billion and, as a result, the total balance of the grey zone reserve was ¥8.6 billion as of March 31, 2008, as compared to ¥10.3 billion as of March 31, 2007.

On a consolidated basis, Shinki's grey zone payments and write-offs amounted to ¥14.1 billion. The business made new grey zone related provisions of ¥8.4 billion and, as a result, the total balance of the grey zone reserve was ¥30.6 billion as of March 31, 2008, as compared to ¥36.4 billion as of March 31, 2007.

RETAIL BANKING

In Retail Banking, the business continues to expand its product range and enhance consultative services for retail customers while working closely with Institutional Banking to better serve the needs of its customers, including high net worth individuals. Furthermore, the Retail Bank and APLUS are working together to offer new products and services such as the Shinsei VISA Card launched in March 2007.

Our retail customers interact and transact with us not only through our physical branches but also via our Internet banking portal, with over 60,000 ATMs located throughout Japan and call centers servicing our customers 24 hours a day, 7 days a week, including Japanese national holidays. We have been installing ATMs in Tokyo Metro stations to provide further convenience to our customers. Our 76 ATMs at 49 stations represent the largest ATM network in the Tokyo Metro. The retail customer base continues to grow at a significant rate, reaching close to 2.2 million accounts as of the end of March 2008, an increase of over 202,000 since March 2007. The Bank continued to launch new products, such as the *Power Step-up Yokin*, an extendable yen time deposit, and the Emerging Currency Bond Fund, a publicly-offered domestic investment trust that invests in emerging market fixed-income securities and investment products through Shinsei Bank's partnership with UTI Asset Management.

Although savings and time deposits as well as mutual fund products continued to grow steadily, during the period under review, weaker demand for structured deposits following the Bank of Japan's change in interest rate policy adversely impacted revenue.

Shinsei Bank considerably improved its ranking and reached second overall in the *Nihon Keizai Shimbun*'s third survey of retail bank strength in July 2007 from twentieth position in last year's survey.

During fiscal year 2007, total revenue was ¥34.0 billion as compared to ¥36.1 billion during the previous fiscal year. The main sources of revenue were interest income internally allocated based on funding of other businesses from retail deposits, fees from asset management products, income from structured deposits and fees and net interest income from loan products. The ability to successfully sell an increasingly wide range of products such as mutual funds and variable annuities is contributing to more balanced and recurrent revenue growth. The decline in revenue resulted mainly from a decrease in structured deposits related option income by ¥5.6 billion from ¥11.3 billion to ¥5.7 billion due to lower demand for structured deposits. This was partly offset by a ¥3.4 billion increase in net interest income associated with the growth in deposits and loan balances. Revenue from asset management products increased from ¥9.3 billion to ¥9.6 billion for fiscal year 2007.

Retail Banking incurred general and administrative expenses of ¥40.1 billion during fiscal year 2007, an increase of ¥2.4 billion, as compared to the previous fiscal year. Strict expense discipline in the business mitigated the expense increase necessary to expand distribution channels. The business generated an ordinary business loss after net credit costs of ¥6.3 billion for fiscal year 2007, as compared to an ordinary business loss after net credit costs of ¥1.6 billion in fiscal year 2006.

TABLE 11. RETAIL BANKING REVENUE BY PRODUCT (CONSOLIDATED)

	Billions of yen		
Fiscal years ended March 31	**2008**	2007	% Change
Retail Banking:			
Deposits and debentures net interest income	**¥ 17.3**	¥ 14.6	18.9
Asset management	**9.6**	9.3	3.6
Loans	**3.7**	2.6	42.4
Deposits and debentures non-interest income	**3.3**	9.6	(65.4)
Total revenue	**¥ 34.0**	¥ 36.1	(5.8)

Deposits of retail customers increased by over 11% and the total of retail deposits surpassed ¥3.9 trillion as of March 31, 2008. Deposits and debentures net interest income relates to the internal interest spread we credit to our Retail Banking business on customer deposits and debentures. Deposits and debentures net interest income grew ¥2.7 billion to ¥17.3 billion in the fiscal year ended March 31, 2008 as a result of growth in retail deposits.

Deposits and debentures non-interest income mainly includes revenue from structured deposits and commissions on foreign exchange transactions. This is partly offset by fees we incur in connection with ATMs and funds transfers. In fiscal year 2007, we recorded revenue of ¥3.3 billion from deposits and debentures non-interest income, a decline of ¥6.3 billion compared to the previous fiscal year, mainly reflecting lower option income generated in connection with structured deposits.

Fees from asset management products increased 3.6% to ¥9.6 billion for the fiscal year ended March 31, 2008 compared to the previous fiscal year. Loans to retail customers grew 44.2% to ¥817.4 billion as of March 31, 2008. This resulted in Retail Banking recording ¥3.7 billion in revenue from housing loans and other lending products during fiscal year 2007.

ALM/CORPORATE/OTHER

ALM, Corporate and Other primarily consists of results of corporate treasury activities, inter-company adjustments, and corporate level expenses. In fiscal year 2007, ordinary business profit after net credit costs was ¥7.0 billion.

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 its 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 accounts for a substantial portion of our consolidated financial condition and results of operations. For the fiscal year ended March 31, 2008, Shinsei Bank accounted for 82.8% of our consolidated assets.

Fiscal year 2007 results of operations, on a non-consolidated basis, were significantly impacted by dislocation in the credit markets and the legislative and market changes affecting the consumer finance industry.

IMPAIRMENT OF INVESTMENT IN APLUS AND SHINKI COMMON SHARES

Legislative changes relating to consumer loan interest rates approved by the Japanese Diet in December 2006 and other developments continued to have a significant impact on the consumer finance industry.

As a result of these conditions, the common share price of APLUS and Shinki declined substantially in the six months ended September 30, 2007, adversely impacting our non-consolidated financial results for that period. This triggered an impairment of Shinsei's investment in APLUS' and Shinki's common shares. Shinsei owned 156,690,390 common shares of APLUS and 25,607,524 common shares of Shinki as of September 30, 2007.

As of September 30, 2007, APLUS' per share common share price was ¥82 as compared to ¥184 as of March 31, 2007. As a result, an impairment of ¥15.9 billion was recorded in our non-consolidated financial results. This is in addition to a valuation allowance of ¥9.2 billion recorded as of March 31, 2007, which represented the decline in value of the shares between the time of our acquisition of APLUS and March 31, 2007.

As of September 30, 2007, Shinki's per share common share price was ¥97 as compared to ¥333 as of March 31, 2007. As a result, an impairment of ¥6.0 billion was recorded in our non-consolidated financial results. This is in addition to a valuation allowance of ¥6.6 billion assessed at March 31, 2007, which represented the difference between the book value of the shares and the common share price of Shinki on March 31, 2007.

TABLE 12. COMPARISON OF TARGETS AND RESULTS FOR KEY MEASURES IN THE REVITALIZATION PLAN (NON-CONSOLIDATED)

	Billions of yen (except percentages)			
	2008		2007	
Fiscal years ended March 31	Target	Actual	Target	Actual
Net income (loss)	¥ 60.0	¥ 53.2	¥ 73.0	¥ (41.9)
Total expenses (without taxes)[1]	82.3	80.5	77.2	74.0
Return on equity based on net business profit[2]	9.6%	9.7%	8.7%	7.3%

Notes: (1) Equals Shinsei's total general and administrative expenses excluding business taxes such as consumption tax.
(2) Equals net business profit 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 exchanges.

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 tables below set forth these supplemental financial data and corresponding reconciliations to net income under Japanese GAAP for the fiscal years ended March 31, 2008 and 2007.

TABLE 13. SUPPLEMENTAL MEASURES (NON-CONSOLIDATED)

	Billions of yen	
Fiscal years ended March 31	2008	2007
Gross business profit *(gyomu sorieki)*[1] :		
Net interest income	¥ 107.5	¥ 59.7
Net fees and commissions[1]	48.8	45.8
Net trading income	6.9	14.9
Net other business (loss) income	(11.4)	12.0
Total gross business profit[1]	152.0	132.5
Total expenses	84.7	77.6
Net business profit[1][2] *(jisshitsu gyomu jun-eki)*	67.2	54.9
Other operating expenses, net[3]	(34.7)	(7.8)
Net operating income *(keijo rieki)*	32.5	47.1
Extraordinary income (loss)	25.7[4]	(102.1)[5]
Income (loss) before income taxes	58.3	(55.0)
Current income taxes (benefit)	(7.6)	(2.7)
Deferred income tax expense (benefit)	12.7	(10.2)
Net income (loss)	¥ 53.2	¥ (41.9)

Notes: (1) Includes income from monetary assets held in trust of ¥37.3 billion in the fiscal year ended March 31, 2008 and ¥30.7 billion in the fiscal year ended March 31, 2007.
(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.
(5) Includes impairment charges on investments in APLUS' preferred shares of ¥98.0 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 had previously been calculated by taking the greater result from the following two 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. However, the recent actual loan loss ratio has rapidly declined, resulting in a less reliable basis for loan loss calculation. Starting from the fiscal year ended March 31, 2007, the calculation methodology has been changed to taking the greater result of the following two methods: (A) the existing methodology mentioned above, or (B) the average of all calculation periods since 1998, the period for which records for loan losses have been maintained. As a result, the reserve for credit losses as of March 31, 2007 and the loss before income taxes and minority interests for the fiscal year ended March 31, 2007 were each ¥23.2 billion higher than would have been the case using the previous calculation method.

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, and a reserve for losses in connection with our potential claims against the DIC, including in connection with our ongoing litigation. A specific reserve has been established for each of these 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 and Shinki establish loan loss reserves in the same manner as APLUS except that with respect to customers with exposure above a specified amount, 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 "Audit 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 and Shinki 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 and Shinki, using the assumptions described above. If any of the assumptions change due to changes in circumstances, an additional reserve could become necessary.

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.

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, 2008 and 2007, the amortized cost of our available-for-sale securities without readily determinable fair value was ¥428.9 billion and ¥260.3 billion, respectively. The total fair value of our available-for-sale securities as of March 31, 2008 and 2007 was ¥1,055.6 billion and ¥1,016.3 billion, respectively. Net unrealized losses recognized as of March 31, 2008 were ¥35.2 billion and net unrealized gains recognized as of March 31, 2007 were ¥8.2 billion.

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 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 fair 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 fair value in order to determine whether an other-than-temporary impairment has occurred, but if the fair 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 fair 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, 2008, we recognized losses of ¥8.9 billion on debt and equity securities available-for-sale due to impairment, as compared to ¥1.2 billion for the fiscal year ended March 31, 2007, mainly due to impairment of foreign securities.

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, 2008, the net fair value of our trading assets and liabilities was ¥110.2 billion and the net balance of revaluation gains on those assets and liabilities was ¥77.0 billion. This compared with a net fair value of ¥204.1 billion and a net balance of revaluation gains of ¥65.9 billion as of March 31, 2007.

The fair value of securities held in our banking book for trading purposes was ¥63.1 billion and ¥116.5 billion as of March 31, 2008 and 2007, respectively. The fair value of other monetary claims purchased was ¥280.6 billion and ¥281.0 billion as of March 31, 2008 and 2007, respectively. The fair value of monetary assets held in trust was ¥248.7 billion and ¥339.0 billion as of March 31, 2008 and 2007, 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, 2008 and 2007, balances related to credit trading of ¥248.7 billion and ¥329.0 billion, respectively, were included in monetary assets held in trust and ¥258.2 billion and ¥245.2 billion, respectively, were included in other monetary claims purchased for trading purposes. As of March 31, 2008 and 2007, net unrealized losses recorded in those accounts were ¥18.3 billion and ¥13.4 billion, 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, 2009 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, 2008 and 2007, our balances of net deferred tax assets, or the difference between our deferred tax assets and our deferred tax liabilities, were ¥23.9 billion and ¥37.3 billion, respectively. The amount of net deferred tax assets was 3.5% of our Tier I capital as of March 31, 2008 and 6.0% of our Tier I capital as of March 31, 2007. If we had concluded that we could reasonably estimate Taxable Income for the next five fiscal years, as of March 31, 2008, 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 non-contributory defined benefit pension plan 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 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, 2008 and 2007.

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 19 years on average and the risk-free rate for a period of 19 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, 2008 and 2007. Had the discount rate decreased 0.5 percentage points, net periodic pension cost for the fiscal year ended March 31, 2008 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. 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. Also, our consolidated Japanese leasing subsidiaries partially applied deferral hedge accounting in accordance with Industry Audit Committee Report No.19 of the JICPA for the fiscal year ended March 31, 2006.

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 bought or sold. 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, 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 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.

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, 2008 and 2007, net losses on hedging instruments which were deferred and recorded as equity amounted to ¥1.0 billion and ¥7.7 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. Impairment loss of ¥0.9 billion on some of the BankSpots and ATMs that are planned to be terminated was recognized for the fiscal year ended March 31, 2008.

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 a controlling interest in APLUS and Showa Leasing on September 29, 2004 and March 23, 2005, respectively. On December 13, 2007, we also acquired a controlling interest in Shinki, which was previously an affiliate, by additional share purchase. In connection with the consolidation of APLUS, Showa Leasing and Shinki, we recognized the assets (including intangibles) and liabilities of APLUS, Showa Leasing and Shinki 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 of 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 intangibles in connection with the acquisition of APLUS, Showa Leasing and Shinki because they arose from contractual or other legal rights, or were separable. The identified other intangibles consist of APLUS, Showa Leasing and Shinki'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(b) to the Consolidated Financial Statements.

The excess of the purchase price over the fair value of the net assets acquired, including identified other intangibles, was recorded as consolidation goodwill and is being amortized on a straight-line basis over 20 years. The amortization period is the maximum period as 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 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 intangibles and consolidation goodwill are subject to impairment testing.

IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLES

We conduct impairment testing for goodwill and other intangibles 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 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.

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

LEASE ACCOUNTING

On March 30, 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions," which revised the existing accounting standard for lease transactions issued on June 17, 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Lessee

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions shall be capitalized recognizing lease assets and lease obligations in the balance sheet.

Lessor

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized. However, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessor's financial statements. The revised accounting standard requires that all finance leases that deem to transfer ownership of the leased property to the lessee shall be recognized as lease receivables, and all finance leases that deem not to transfer ownership of the leased property to the lessee shall be recognized as investments in lease.

UNIFICATION OF ACCOUNTING POLICIES APPLIED TO FOREIGN SUBSIDIARIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Under Japanese GAAP, a company currently can use the financial statements of its foreign subsidiaries which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17,

CRITICAL ACCOUNTING POLICIES (continued)

2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new standard prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

(1) Amortization of goodwill;
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss;
(3) Capitalization of other intangible assets arising from development phases;
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and other intangible assets;
(5) Retrospective application when accounting policies are changed; and
(6) Accounting for net income attributable to minority interest.

The new task force is effective for fiscal years beginning on or after April 1, 2008.

FINANCIAL CONDITION

TOTAL ASSETS

As of March 31, 2008, we had consolidated total assets of ¥11,525.7 billion. This represented a 6.3% increase from ¥10,837.6 billion as of March 31, 2007. The increase was principally attributable to an increase in loans and bills discounted and securities. Shinsei Bank's balance of loans and bills discounted was ¥5,622.2 billion at the end of March 31, 2008 as compared to ¥5,146.3 billion as of March 31, 2007. Corporate loans increased 1.0% to ¥2,856.1 billion, the non-recourse real estate finance balance decreased 9.6% to ¥695.6 billion as more non-recourse loans shifted to bond structures, other institutional loans increased 21.8% to ¥736.7 billion, loans to retail customers, including high net worth individuals, grew 41.9% to ¥907.4 billion due mainly to an increase in housing loans, and a loan balance of ¥95.5 billion related to Shinki was added. The loan growth was partly offset by the absence of lending to Life Housing Loan's customers, following the sale of this subsidiary in fiscal year 2007. Life Housing Loan's balance of loans amounted to ¥99.9 billion at March 31, 2007.

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, 2008. As reflected below, almost 69% of the securities will mature during the next five years. The balance of securities as of March 31, 2008 amounted to ¥1,980.2 billion as compared to ¥1,854.6 billion as of March 31, 2007. The increase relates in part to investments in Japanese corporate bonds.

TABLE 14. SECURITIES BY MATURITY (CONSOLIDATED) [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**

	Billions of yen							
	As of March 31, 2007							
	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	¥ 319.0	¥ 233.9	¥ 150.4	¥ —	¥ —	¥ 46.9	¥ —	¥ 750.4
Japanese local government bonds	51.5	0.0	0.5	1.1	—	—	—	53.2
Japanese corporate bonds	139.7	103.1	65.9	15.9	11.4	9.5	—	345.7
Japanese equity securities	—	—	—	—	—	—	33.5	33.5
Foreign bonds and other	8.8	59.3	81.8	46.5	123.4	179.0	172.6	671.7
Total securities	¥ 519.2	¥ 396.4	¥ 298.7	¥ 63.6	¥ 134.9	¥ 235.4	¥ 206.1	¥ 1,854.6

Note: (1) Please see Note 8 on page 121 for redemption schedules for securities being held to maturity and available-for-sale.

LOAN PORTFOLIO

As of March 31, 2008, we had ¥5,622.2 billion in loans and bills discounted. This represented 48.8% of total consolidated assets and a 9.2% increase from the ¥5,146.3 billion of loans and bills discounted as of March 31, 2007. 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 close to one-half of our balance of loans as of March 31, 2008. About one-half of loans to the real estate industry as of March 31, 2008 consisted of non-recourse and project finance loans. Loans to this industry decreased by 6.9%, to ¥1,295.1 billion, or 23.6% of total domestic loans as of March 31, 2008, primarily because of an increase in loans to government-related institutions.

Loans to others of ¥1,597.9 billion as of March 31, 2008 included loans extended to Shinsei's, APLUS' and Shinki's individual customers amounting, in aggregate, to ¥1,174.7 billion.

TABLE 15. LOANS BY BORROWER INDUSTRY (CONSOLIDATED)

As of March 31	Billions of yen (except percentages) 2008		2007	
Domestic offices (excluding Japan offshore market account):				
Manufacturing	¥ 191.8	3.5%	¥ 189.4	3.8%
Agriculture	0.0	0.0	0.0	0.0
Forestry	—	—	0.0	0.0
Fishers	2.9	0.0	0.9	0.0
Mining	4.5	0.1	6.6	0.1
Construction	20.4	0.4	19.9	0.4
Electric power, gas, heat supply and water supply	74.6	1.4	80.1	1.6
Information and communications	50.0	0.9	27.5	0.5
Transportation	379.4	6.9	391.9	7.8
Wholesale and retail	138.0	2.5	117.5	2.3
Finance and insurance	1,248.0	22.7	1,091.6	21.6
Real estate	1,295.1	23.6	1,390.4	27.5
Services	374.0	6.8	369.9	7.3
Local government	118.1	2.1	63.8	1.3
Others	1,597.9	29.1	1,302.1	25.8
Total domestic (A)	¥ 5,495.3	100.0%	¥ 5,052.2	100.0%
Overseas offices (including Japan offshore market accounts):				
Governments	¥ 1.1	0.9%	¥ 0.9	1.0%
Others	125.6	99.1	93.1	99.0
Total overseas (B)	¥ 126.8	100.0%	¥ 94.0	100.0%
Total (A+B)	¥ 5,622.2		¥ 5,146.3	

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, 2008, the increase in total loans resulted from increases in both variable-interest rate loans and fixed-interest rate loans.

TABLE 16. LOAN MATURITY (NON-CONSOLIDATED)

As of March 31	Billions of yen 2008	2007
Fixed-interest loans:		
One year or less[1]	¥ —	¥ —
Over one year to three years	113.1	87.5
Over three years to five years	125.2	178.4
Over five years to seven years	94.8	99.5
Over seven years	740.1	616.1
Indefinite term	9.6	6.8
Variable-interest loans:		
One year or less[1]	¥ —	¥ —
Over one year to three years	1,388.6	1,096.1
Over three years to five years	552.3	804.8
Over five years to seven years	228.5	246.3
Over seven years	483.4	475.8
Indefinite term	21.1	3.4
Total loans:		
One year or less	¥ 1,599.1	¥ 1,459.9
Over one year to three years	1,501.8	1,183.6
Over three years to five years	677.5	983.2
Over five years to seven years	323.3	345.9
Over seven years	1,223.6	1,092.0
Indefinite term	30.8	10.3
Total loans	¥ 5,356.3	¥ 5,075.2

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, 2008, 50.8% 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 rest were held by 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 APLUS, Showa Leasing and Shinki. For a discussion of the problem claims of APLUS, Showa Leasing and Shinki see "—Asset Quality of APLUS, Showa Leasing and Shinki" on page 90.

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 and at least semi-annually. 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		Non-accrual delinquent loans
Possibly bankrupt	Doubtful claims	
(Substandard)	Substandard claims	Loans past due for three months or more
		Restructured loans
	(Other claims against substandard obligors)	
Need caution	Normal claims	
Normal		

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, of our claims against substandard obligors and possibly bankrupt obligors.

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 ¥25.2 billion, or 90.3%, to ¥53.1 billion, between March 31, 2007 and 2008. During the fiscal year ended March 31, 2008, claims against bankrupt and quasi-bankrupt obligors increased from ¥0.9 billion to ¥8.0 billion and doubtful claims increased from ¥10.7 billion to ¥15.5 billion, and substandard claims increased from ¥16.2 billion to ¥29.5 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, 2008 increased to 1.0%, compared to 0.5% as of March 31, 2007.

Shinsei's other claims against need caution obligors, excluding substandard claims, totaled ¥106.2 billion as of March 31, 2008, a 14.0% decrease from ¥123.6 billion as of March 31, 2007. These include private placement bonds guaranteed by Shinsei and classified other claims against need caution obligors. These claims represented 1.9% of total non-consolidated claims as of March 31, 2008, down from 2.3% as of March 31, 2007.

TABLE 17. CLAIMS CLASSIFIED UNDER THE FINANCIAL REVITALIZATION LAW (NON-CONSOLIDATED)

	Billions of yen (except percentages)	
As of March 31	**2008**	2007
Claims against bankrupt and quasi-bankrupt obligors	**¥ 8.0**	¥ 0.9
Doubtful claims	**15.5**	10.7
Substandard claims	**29.5**	16.2
Total claims disclosed under the Financial Revitalization Law[1]	**53.1**	27.9
Normal claims and claims against need caution obligors excluding substandard claims	**5,512.8**	5,266.7
Total claims	**¥ 5,566.0**	¥ 5,294.6
Ratio of total claims disclosed under the Financial Revitalization Law to total claims	**1.0%**	0.5%

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, 2008, 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, 87.1% for doubtful claims and 38.9% for substandard claims. For all claims classified under the Law, the coverage ratio was 62.2%, a decrease from 79.3% as of March 31, 2007.

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, 2008 and 2007, ¥34.5 billion and ¥6.3 billion, respectively, of such claims were written off on a non-consolidated basis.

TABLE 18. COVERAGE RATIOS FOR NON-PERFORMING CLAIMS DISCLOSED UNDER THE FINANCIAL REVITALIZATION LAW (NON-CONSOLIDATED)

	Billions of yen (except percentages)				
		Amounts of coverage			
	Amount of claims	Reserve for loan losses	Collateral and guarantees	Total	Coverage ratio
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%**
As of March 31, 2007:					
Claims against bankrupt and quasi-bankrupt obligors	¥ 0.9	¥ —	¥ 0.9	¥ 0.9	100.0%
Doubtful claims	10.7	8.0	0.9	9.0	84.1
Substandard claims	16.2	6.5	5.6	12.1	75.0
Total	¥ 27.9	¥ 14.6	¥ 7.5	¥ 22.1	79.3%

CHANGES IN AMOUNT OF PROBLEM CLAIMS

The table below sets forth Shinsei's experience since March 31, 2006 with the removal of problem claims and the emergence of new claims on a non-consolidated basis:

TABLE 19. 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, 2006	¥ 21.0	¥ 20.7	¥ 0.7	¥ 42.5
Claims newly added April 1, 2006 to March 31, 2007	2.7	8.2	0.8	11.7
Claims removed April 1, 2006 to March 31, 2007	(7.5)	(14.7)	(4.0)	(26.3)
Claims migrating between classifications April 1, 2006 to March 31, 2007	—	(3.4)	3.4	—
Net change	(4.8)	(9.9)	0.2	(14.6)
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**

In 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. Of the newly added problem claims, ¥23.4 billion were classified as substandard claims.

For the fiscal year ended March 31, 2007, ¥11.7 billion of claims were newly classified as substandard or worse, while Shinsei removed ¥26.3 billion of claims in these categories during the same period. The ¥14.7 billion in doubtful claims removed during the period was primarily attributable to collections and upgrading of claims to a higher category.

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 20. RESERVE FOR CREDIT LOSSES (NON-CONSOLIDATED)

	Billions of yen (except percentages)	
As of March 31	**2008**	2007
General reserve for loan losses	**¥ 57.9**	¥ 65.4
Specific reserve for loan losses	**9.6**	9.1
Reserve for loans to restructuring countries	**0.0**	0.0
Subtotal reserve for loan losses	**67.5**	74.5
Specific reserve for other credit losses	**26.0**	32.4
Total reserve for credit losses	**¥ 93.6**	¥ 106.9
Total claims(1)	**¥ 5,566.0**	¥ 5,294.6
Ratio of total reserve for loan losses to total claims	**1.2%**	1.4%
Ratio of total reserve for credit losses to total claims	**1.7%**	2.0%

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, 2008 and 2007, our total reserve for credit losses on a non-consolidated basis was ¥93.6 billion and ¥106.9 billion respectively, constituting 1.7% and 2.0% of total claims as of these respective dates.

RISK-MONITORED LOANS

Consolidated risk-monitored loans increased by 61.2% during the fiscal year ended March 31, 2008 to ¥104.4 billion. The increase of ¥20.6 billion in non-accrual delinquent loans and the ¥18.5 billion in restructured loans added during the period were primarily attributable to Shinki 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 21. RISK-MONITORED LOANS (CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2008	2007
Loans and bills discounted	¥ 5,622.2	¥ 5,146.3
Loans to bankrupt obligors (A)	2.1	1.7
Non-accrual delinquent loans (B)	42.5	21.8
Total loans (A)+(B)	¥ 44.7	¥ 23.5
Ratio to total loans and bills discounted	0.8%	0.5%
Loans past due for three months or more (C)	¥ 4.7	¥ 4.7
Restructured loans (D)	54.9	36.4
Total risk-monitored loans (A)+(B)+(C)+(D)	¥ 104.4	¥ 64.8
Ratio to total loans and bills discounted	1.9%	1.3%
Reserve for credit losses	¥ 145.9	¥ 147.2

TABLE 22. RISK-MONITORED LOANS (NON-CONSOLIDATED)

Billions of yen (except percentages)

As of March 31	2008	2007
Loans and bills discounted	¥ 5,356.3	¥ 5,075.2
Loans to bankrupt obligors (A)	0.5	0.6
Non-accrual delinquent loans (B)	22.8	10.6
Total loans (A)+(B)	¥ 23.4	¥ 11.2
Ratio to total loans and bills discounted	0.4%	0.2%
Loans past due for three months or more (C)	¥ 0.1	¥ 0.0
Restructured loans (D)	29.4	16.1
Total risk-monitored loans (A)+(B)+(C)+(D)	¥ 53.0	¥ 27.4
Ratio to total loans and bills discounted	1.0%	0.5%
Reserve for credit losses	¥ 93.6	¥ 106.9

ASSET QUALITY OF APLUS, SHOWA LEASING AND SHINKI

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. 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, APLUS, Showa Leasing, Shinki and other subsidiaries as of the dates indicated:

TABLE 23. RISK-MONITORED LOANS BREAKDOWN FOR LARGE ENTITIES (CONSOLIDATED)

	Billions of yen				
	Shinsei	APLUS	Shinki	Other subsidiaries	Total
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**
As of March 31, 2007:					
Loans to bankrupt obligors	¥ 0.6	¥ —	¥ —	¥ 1.0	¥ 1.7
Non-accrual delinquent loans	10.6	3.5	—	7.7	21.8
Loans past due for three months or more	0.0	4.6	—	0.1	4.7
Restructured loans	16.1	19.7	—	0.4	36.4
Total	¥ 27.4	¥ 27.8	¥ —	¥ 9.4	¥ 64.8

TABLE 24. RISK-MONITORED INSTALLMENT RECEIVABLES INCLUDED IN OTHER ASSETS (CONSOLIDATED)(1)

	Billions of yen			
	APLUS	Showa Leasing	Other subsidiaries	Total
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**
As of March 31, 2007:				
Credits to bankrupt obligors	¥ 0.0	¥ 0.2	¥ —	¥ 0.2
Non-accrual delinquent credits	2.1	1.0	—	3.1
Credits past due for three months or more	1.6	0.0	—	1.7
Restructured credits	10.0	0.1	—	10.2
Total	¥ 13.8	¥ 1.5	¥ —	¥ 15.4

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

FUNDING AND LIQUIDITY

FUNDING AND LIQUIDITY MANAGEMENT

The focus of liquidity management is to ensure sufficient cash 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. Our Treasury Division is responsible for our liquidity management and funding execution.

In accordance with its role as a special purpose long-term credit bank in Japan, LTCB relied heavily on domestic debentures for funding. Over the past seven years, however, we have transformed ourselves into a full-service financial institution and as part of that process have increased our retail deposit balances. 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. Our long-term funding strategy is to eventually replace debenture issuances with customer deposits and ordinary debt financing.

Shinsei provides funding to its subsidiaries and affiliates, and expects to continue to do so. However, our subsidiaries and affiliates may rely on 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. In particular, APLUS, Showa Leasing and Shinki borrow, and expect to continue to borrow, from a number of banks other than Shinsei and also make direct issuances of debt securities.

The table below shows changes in the proportion of our funding overall represented by funds raised from debentures and deposits in our Retail and Institutional Banking businesses, as well as from our collateralized loan obligation program at the end of the periods indicated. As seen below, funds from retail deposits have become an increasingly important source of funding.

TABLE 25. DIVERSIFICATION BY FUNDING TYPE (CONSOLIDATED)

	Billions of yen			
Fiscal year ended March 31	**2008**	2007	2006	2005
Retail deposits[1]	**¥ 3,993.7**	¥ 3,573.8	¥ 3,103.4	¥ 2,300.4
Retail debentures	**342.2**	381.9	435.3	559.3
Institutional funding	**2,133.0**	2,168.5	1,551.8	1,835.7
Collateralized loan obligation	**—**	155.0	255.0	255.0

Note: (1) Includes wealth management customers' deposits.

DEPOSITS

Shinsei Bank maintains a diversified funding base. Total deposits and negotiable certificates of deposit increased ¥385.7 billion or 7.1% to ¥5,806.6 billion in fiscal year 2007. The retail deposits balance, including high net worth customers, totaled ¥3,993.7 billion at March 31, 2008, an increase of ¥419.9 billion compared to March 31, 2007. Retail Banking's customer funding represents 67.0% 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, 2008 and 2007 by remaining maturity as of the dates indicated:

TABLE 26. TIME DEPOSITS BY MATURITY (CONSOLIDATED)

	Billions of yen	
As of March 31	**2008**	2007
Less than three months[1]	**¥ 695.0**	¥ 881.3
Three months or more, but less than six months	**503.8**	473.1
Six months or more, but less than one year	**734.3**	160.5
One year or more, but less than two years	**695.5**	50.0
Two years or more, but less than three years	**580.9**	690.4
Three years or more	**313.9**	676.0
Total	**¥ 3,523.7**	¥ 2,931.6

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

DEBENTURES AND CORPORATE BONDS

As of March 31, 2008, we had ¥662.4 billion in debentures outstanding. This represented 6.3% of our consolidated total liabilities and constituted a decline of 5.8% from March 31, 2007. As of March 31, 2008, corporate bonds stood at ¥426.2 billion.

As of March 31, 2008, scheduled repayments of debentures and corporate bonds over the periods indicated below were as follows:

TABLE 27. MATURITY SCHEDULE OF DEBENTURES AND CORPORATE BONDS (CONSOLIDATED)

DEBENTURES

Fiscal year ending March 31	Billions of yen
2009	¥ 147.6
2010	122.6
2011	175.0
2012	111.7
2013 and thereafter	105.2
Total	¥ 662.4

Please see Note 19 on page 125 for details.

CORPORATE BONDS

Fiscal year ending March 31	Billions of yen
2009	¥ 21.3
2010	14.9
2011	33.0
2012	1.3
2013 and thereafter	355.5
Total	¥ 426.2

Please see Note 15 on page 124 for details.

While we will continue to issue debentures where we are able to minimize funding costs, 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 important component of our funding strategy. In the fiscal year ended March 31, 2002, we established a collateralized loan obligation program under which we receive the net proceeds from the issuance of notes that are backed by interests in loans we transferred to a master trust.

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 28. SHINSEI'S CREDIT RATINGS AS OF MAY 2008

Rating agency	Long-term	Short-term
Moody's	Deposits: A2 Senior debt: A2	P-1
Standard & Poor's	A–	A-2
Fitch	BBB+	F2
R&I	A–	—
JCR	A	—

On May 4, 2007, Moody's raised our long-term credit rating from A3 to A2. On June 18, 2007, Standard and Poor's raised the long-term counter-party credit rating from BBB+ to A–.

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, 2008 and 2007:

TABLE 29. CONTRACTUAL CASH OBLIGATIONS (CONSOLIDATED)

	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**

	Billions of yen		
Payments due by period as of March 31, 2007	One year or less	Over one year	Total
Borrowed money	¥ 470.4	¥ 652.2	¥ 1,122.6
Capital lease obligations	0.7	0.6	1.4
Total	¥ 471.2	¥ 652.8	¥ 1,124.1

TAXATION

SCHEDULE OF TAX LOSS CARRYFORWARDS

Our tax loss carryforwards have principally resulted from the realization of credit losses for tax purposes since our emergence from temporary nationalization. As of March 31, 2008, Shinsei had ¥42.3 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 30. SCHEDULE OF TAX LOSS CARRYFORWARDS (NON-CONSOLIDATED)

	Billions of yen	
Year tax loss carryforwards generated/renewed	Amount	Date of expiry
Shinsei Bank		
Fiscal year ended March 31, 2003	42.3	March 31, 2010

Because APLUS, Showa Leasing and Shinki are not wholly owned subsidiaries, we are unable to include their results in our consolidated tax returns. As a result, their tax losses are not reflected in the table above. The table below sets forth a schedule of tax loss carryforwards of APLUS, Showa Leasing and Shinki as of March 31, 2008.

Year tax loss carryforwards generated/renewed	Billions of yen Amount	Date of expiry
APLUS		
Fiscal year ended March 31, 2005	¥ 157.7	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	10.4	March 31, 2015
Total	¥ 205.9	
Showa Leasing		
Fiscal year ended March 31, 2005	¥ 26.9	March 31, 2012
Fiscal year ended March 31, 2007	10.0	March 31, 2014
Fiscal year ended March 31, 2008	0.4	March 31, 2015
Total	¥ 37.3	
Shinki		
Fiscal year ended March 31, 2007	¥ 0.3	March 31, 2014
Fiscal year ended March 31, 2008	20.0	March 31, 2015
Total	¥ 20.3	

In the event that Shinsei, APLUS, Showa Leasing or Shinki, 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 78.

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, 2008:

TABLE 31. EQUITY (CONSOLIDATED)

As of March 31	Millions of yen (except percentages) 2008	2007
Common stock	**¥ 476,296**	¥ 291,853
Preferred stock	**—**	159,443
Capital surplus	**43,558**	18,558
Stock acquisition rights	**1,257**	517
Retained earnings	**302,535**	245,499
Net unrealized gain (losses) on securities available-for-sale, net of taxes	**(35,073)**	5,091
Deferred loss on derivatives under hedge accounting	**(1,057)**	(7,744)
Foreign currency translation adjustments	**1,872**	2,952
Treasury stock, at cost	**(72,566)**	(72,560)
Total shareholders' equity	**¥ 716,823**	¥ 643,611
Minority interests in subsidiaries	**248,437**	289,642
Total equity	**¥ 965,261**	¥ 933,253
Ratio of total equity or shareholders' equity to total assets	**8.4%**	8.6%

The primary reason for the increase in our equity during fiscal year 2007 was the issuance of ¥50.0 billion of new common shares by a third-party allotment to investors, including affiliates of J.C. Flowers & Co. LLC. This was partly offset by a decrease of ¥40.1 billion in net unrealized losses on securities available-for-sale, net of taxes.

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, 2008 was 11.74%, compared with 13.13% as of March 31, 2007. Our Tier I capital ratio, or the ratio of Tier I capital to risk assets, decreased from 8.11% as of March 31, 2007 to 7.37% as of March 31, 2008. The decreases in our capital ratios as of March 31, 2008 are primarily the result of an increase in risk assets due to the increase in assets on our balance sheet. This was partly offset by an increase in Tier I capital, which was mainly the result of our new capital raising.

TABLE 32. CAPITAL RATIOS (CONSOLIDATED)

	Billions of yen (except percentages)	
As of March 31	2008	2007
Basic items (Tier I):		
Capital stock	¥ 476.2	¥ 451.2
Common stock	476.2	291.8
Preferred stock	—	159.4
Capital surplus	43.5	18.5
Retained earnings	302.5	245.4
Treasury stock, at cost	(72.5)	(72.5)
Expected income distribution	(5.7)	(2.5)
Net unrealized losses on securities available-for-sale, net of taxes	(35.0)	—
Foreign currency translation adjustments	1.8	2.9
Share warrant	1.2	0.5
Minority interests in consolidated subsidiaries	160.5	180.7
Preferred securities issued by foreign SPC	147.1	173.7
Consolidation goodwill	(142.2)	(158.0)
Other intangibles	(23.6)	(19.8)
Gain on sale of securitization	(15.3)	(16.5)
50% of expected loss provision shortfall	(11.6)	(9.1)
Total Tier I (A)	679.7	620.8
Step-up preferred securities	77.2	91.2
Supplementary items (Tier II):		
General reserve for loan losses	5.7	13.9
Perpetual preferred stocks	81.0	81.0
Perpetual subordinated debt and bonds	103.5	116.6
Non-perpetual preferred stocks	—	19.7
Non-perpetual subordinated debt and bonds	344.6	348.3
Total	¥ 535.0	¥ 579.7
Amount eligible for inclusion in capital (B)	¥ 530.2	¥ 522.0
Deduction (C)	128.0	137.7
Intentional capital investment to other financial institutions	15.9	10.1
Capital investment to affiliated companies	42.1	54.4
50% of expected loss provision shortfall	11.6	9.1
Expected losses on exposures under PD/LCD measures such as equities	1.2	0.3
Unrated securitization exposure	61.6	68.7
Exclusion from deductions	4.6	5.1
Total capital (D) [(A)+(B)-(C)]	¥ 1,081.9	¥ 1,005.0
Risk assets:		
On-balance sheet items	¥ 6,629.6	¥ 5,585.8
Off-balance sheet items	1,868.0	1,458.1
Market Risk(1)	251.3	196.2
Operational Risk(1)	463.4	411.8
Total (E)	¥ 9,212.5	¥ 7,652.0
Consolidated capital adequacy ratio (D) / (E)	11.74%	13.13%
Consolidated Tier I capital ratio (A) / (E)	7.37%	8.11%

Note: (1) Derived by multiplying the capital requirement by 12.5 (i.e., the reciprocal of the minimum capital ratio of 8%).

COMPOSITION OF TIER I CAPITAL

Common stock and retained earnings: As a result of the conversion of our Class-A preferred stock into common shares as described below, our equity was composed of only common stock as of March 31, 2008. In addition, we issued ¥50 billion of new common shares in fiscal year 2007. As a result, both our capital stock and capital surplus increased by ¥25 billion. As a result of our recording net income of ¥60.1 billion in fiscal year 2007, retained earnings increased to ¥302.5 billion as of March 31, 2008.

Preferred stock: 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 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 disposed of them. In connection with these transactions, we repurchased 175,466,000 of our common shares for aggregate consideration of ¥132.1 billion and subsequently cancelled 85 million of those common shares. The remainder of the repurchased common shares are 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.

TABLE 33. DIVIDENDS AND DISTRIBUTION AMOUNTS ON SHARES OF PREFERRED STOCK (NON-CONSOLIDATED)

Class of preferred shares	Yen per share Amount of Annual dividend	 Amount of Distribution of residual assets
Class-A preferred shares	¥ 6.5	¥ —
Class-B preferred shares	—	—

The Class-A preferred shares were converted into common shares in the second half of fiscal year 2007, and the Class-B preferred shares were wholly converted into common shares in the first half of fiscal year 2007. Therefore we paid only interim dividends on our Class-A preferred shares in fiscal year 2007.

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. 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 principal component of our Tier II capital is subordinated debt and bonds. As of March 31, 2008, we had ¥100.0 billion of dated subordinated bonds issued by Shinsei (excluding the EUR0.9 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 ¥81.0 billion of class-D perpetual preferred shares of APLUS held by third-parties as of March 31, 2008. 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, 2008. 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 34. SUBORDINATED DEBT AND BONDS (CONSOLIDATED)

	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**

	Billions of yen					
As of March 31, 2007	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	99.9	99.6	258.1	—	358.0	—
Total	¥ 116.9	¥ 116.6	¥ 349.1	¥ 293.7	¥ 466.0	¥ 410.3

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, 2008, we repaid ¥1.0 billion and EUR15.0 million of non-perpetual subordinated bonds. Interest rates on ¥24.0 billion of our perpetual subordinated debt and bonds included in Tier II capital as of March 31, 2008 will increase between January 2013 and December 2015. Interest rates on ¥0.5 billion of perpetual subordinated bonds will increase in December 2008.

¥24.0 billion of our perpetual subordinated debt and bonds included in Tier II capital as of March 31, 2008 will become prepayable between January 2013 and December 2015. ¥0.5 billion of perpetual subordinated bonds are currently prepayable.

Interest rates on ¥28.0 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.

¥83.0 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 EUR1.0 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, 2008 and 2007, we held ¥59.1 billion and ¥66.3 billion, respectively, of debt securities and residual interests from securitization transactions. As of March 31, 2008 and 2007, ¥38.6 billion and ¥40.9 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, 2008 and 2007, the total principal amount of participation interests in loans transferred to third-parties was ¥61.1 billion and ¥83.1 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, 2008 and 2007, we had ¥4,436.5 billion and ¥4,456.5 billion of these commitments, of which ¥4,064.7 billion and ¥4,118.3 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, 2008 and 2007, we had ¥701.7 billion and ¥754.4 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, 2008 and 2007, ¥693.7 billion and ¥738.7 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

The slowdown in the U.S. economy, deterioration in global credit markets, liquidity worries surrounding financial institutions and the collapse of the structured products markets caused us to record significant mark-downs and credit provisions during fiscal year 2007.

Tables 35 through 39 below set forth certain information regarding our exposure to the U.S. residential mortgage market, securitized products and related investments as of September 30, 2007 and as of and for the fiscal year ended March 31, 2008. Table 40 provides definitions for the defined terms used in Tables 35 through 39.

TABLE 35. U.S RESIDENTIAL MORTGAGE EXPOSURE (SECURITIES AND LOANS) [CONSOLIDATED]

	Millions of dollars, %				Billions of yen
	Balance Before Evaluation[1]	Mark-Down During FY2007 or Credit Reserve as of Mar 31, 2008		**Net Exposure Mar 31, 2008**	**Net Exposure Mar 31, 2008**
	(a)	(b)	% Decline	**(c) = (a) - (b)**	**(c) x ¥99.73**
Mark-to-Market Exposure	242.6	157.1[2]	(64.8)	85.4	8.5
Securities[3]	167.0	81.6	(48.9)	85.4	8.5
AAA[4]	98.5	24.0	(24.4)	74.4	7.4
AA[4]	24.0	14.6	(60.9)	9.4	0.9
Other (A or lower)[4]	44.5	42.9	(96.4)	1.5	0.1
Equities and Warrants	75.5	75.5	(100.0)	0.0	0.0
Loans and Other Credit Exposure	342.6	122.1[5]		**195.4**[10]	19.4
Loans	234.3	119.8		114.4	11.4
Loans funded prior to 4QFY2007	112.3	112.3		—	—
New loans funded in 4QFY2007[6]	122.0	7.5		114.4	11.4
Securities whose fair value is not readily determinable[7]	83.3	2.3		80.9	8.0
Securities sold during FY2007[8]	25.0	—		—	—
Total	585.2	279.3[9]		**280.8**[10]	28.0

Notes: (1) Except for one security sold during FY2007 (please see Note 8), figures are balances as of March 31, 2008 (end of fiscal year 2007) before mark-to-market adjustments or credit reserves.
(2) Mark-downs of U.S. residential mortgage exposure during FY2007 totaled ¥15.6 billion ($157.1 million, using the March 31, 2008 exchange rate of ¥99.73/$1).
(3) Comprised of 2007-vintage securities except for one AAA-rated security of 2006-vintage amounting to $21.3 million (¥2.1 billion).
Of the total ¥16.8 billion of securities exposure, subprime-related exposure is ¥3.7 billion, including the security discussed in Note 7, as of March 31, 2008. Please see the definition of "subprime-related" in table 40.
(4) Based on ratings as of March 31, 2008.
(5) Net provision for credit reserves and others for the U.S. residential mortgage market exposure during FY2007 totaled ¥13.4 billion ($122.1 million minus credit reserves as of March 31, 2007 plus $20.5 million of loss on the sale of a security, using an exchange rate of ¥99.73/$1).
(6) Includes undrawn portion of commitment lines.
(7) At inception, 82% of the fair value of original investment could be attributed to a U.S. Treasury Note-based security (rated AAA) in the underlying assets; the remainder was comprised of various other securities including U.S. RMBS. As of March 31, 2008, the U.S. Treasury Note-based security accounted for nearly all of the underlying asset value. Please see the definition of "subprime-related" in table 40.
(8) No remaining exposure at the end of FY2007 due to the sale of the security.
(9) Mark-downs and credit reserves for the U.S residential mortgage market exposure during FY2007 totaled ¥29.1 billion (also see Notes 2 and 5).
(10) The security sold during FY2007 (please see Note 8) is excluded from the net exposure calculation.

TABLE 36. BALANCE OF SECURITIZED PRODUCTS (BREAKDOWN BY REGION AND TYPE OF SECURITIES)(1) (NON-CONSOLIDATED)

Billions of yen

	Credit Ratings of Securities(2) (Mar 31, 2008)						
	AAA	AA	A or lower	N/A	Mar 31, 2008 (a)	Sep 30, 2007 (b)	Change (a)-(b)
RMBS	26%	13%	2%	59%	**76.2**	98.7	(22.4)
Japan	12%	5%	3%	81%	**45.6**	55.4	(9.7)
U.S.(3)	46%	1%	1%	52%	**15.9**	23.5	(7.6)
Europe	0%	100%	0%	0%	**7.3**	9.4	(2.1)
Other(4)	100%	0%	0%	0%	**7.2**	10.2	(2.9)
CMBS(5)	0%	12%	87%	0%	**30.3**	35.2	(4.9)
Japan	0%	6%	94%	1%	**17.6**	18.5	(0.8)
U.S.	—	—	—	—	**—**	—	—
Europe	0%	0%	100%	0%	**10.0**	13.3	(3.3)
Other	0%	100%	0%	0%	**2.6**	3.4	(0.7)
CDO	54%	39%	6%	2%	**149.5**	183.8	(34.3)
Japan	—	—	—	—	**—**	—	—
U.S.(6)	50%	47%	0%	3%	**87.6**	116.8	(29.2)
Europe	57%	28%	15%	0%	**59.1**	63.6	(4.4)
Other	100%	0%	0%	0%	**2.7**	3.4	(0.6)
ABS CDO (Re-securitized Products)	0%	10%	20%	70%	**8.9**	10.0	(1.0)
Japan(7)	0%	0%	23%	77%	**8.0**	8.1	(0.0)
U.S.(3)	0%	100%	0%	0%	**0.8**	1.8	(0.9)
Europe	—	—	—	—	**—**	—	—
Other	—	—	—	—	**—**	—	—
Total	38%	27%	15%	20%	**265.1**	327.9	(62.7)
Japan	8%	4%	27%	61%	**71.4**	82.1	(10.7)
U.S.	49%	41%	0%	10%	**104.4**	142.2	(37.8)
Europe	44%	31%	25%	0%	**76.5**	86.4	(9.9)
Other	79%	21%	0%	0%	**12.7**	17.0	(4.3)

	Mar 31, 2008 (a)	Sep 30, 2007 (b)	Change (a)-(b)
Securities	**199.1**	260.4	(61.2)
RMBS	**30.6**	52.3	(21.7)
CMBS	**18.1**	22.3	(4.2)
CDO	**149.5**	183.8	(34.3)
ABS CDO	**0.8**	1.8	(0.9)
Other monetary claims purchased	**66.0**	67.5	(1.4)
RMBS	**45.6**	46.4	(0.7)
CMBS	**12.2**	12.9	(0.6)
CDO	**—**	—	—
ABS CDO	**8.0**	8.1	(0.0)
Total	**265.1**	327.9	(62.7)

Notes: (1) The amount is the outstanding balance, after mark-downs and other comprehensive income (OCI) adjustments, at the end of each period.
(2) Based on ratings as of March 31, 2008. The "N/A" rating for Japanese RMBS represents senior portions of other monetary claims purchased for the purpose of warehousing for future securitization. The "N/A" rating for U.S. RMBS is for a security where U.S. Treasury Note-based security represents 82% of the value and various other securities including U.S. RMBS represent the remaining 18% at inception.
(3) Securities related to U.S. residential mortgage market. Of the ¥15.9 billion in U.S. RMBS outstanding as of March 31, 2008, subprime-related exposure is ¥2.9 billion. In addition, subprime-related exposure includes ABS CDO (one security) of ¥0.8 billion.
(4) Includes exposures guaranteed by a monoline insurer (¥1.4 billion as of March 31, 2008 and ¥2.0 billion as of September 30, 2007).
(5) Breakdown of collateral: office building (42%), multi-family (44%), retail and shops (8%), hotel and others (6%)
(6) One security amounting to ¥2.2 billion is hedged using a credit default swap index in the amount of approximately ¥2.0 billion; counterparty is a European investment bank (AA-rated).
(7) Backed by domestic RMBS and CMBS and does not include subprime-related exposure.

TABLE 37. SECURITIZED PRODUCTS RECORDED UNDER "SECURITIES" AND "OTHER MONETARY CLAIMS PURCHASED" AND OCI [NON-CONSOLIDATED]

SECURITIES

	Billions of yen, %			
	As of March 31, 2008			
	Balance before Mark-to-Market Evaluation	Market Value or Balance	Unrealized Gains/ Losses (OCI)	Price Decline Ratio (%)
Trading Securities	19.7	**12.7**		
RMBS (Japan)	—	**—**		
RMBS (U.S.) [1]	7.3	**2.3**		
RMBS (Other foreign countries)	5.6	**5.4**		
CDO (U.S.)	3.7	**2.1**		
CDO (Other foreign countries)	2.9	**2.7**		
Securities available-for-sale	202.8	**178.0**	(24.8)	(12.2)
Other	202.8	**178.0**	(24.8)	(12.2)
Foreign securities	202.8	**178.0**	(24.8)	(12.2)
Foreign currency denominated foreign corporate and government bonds	197.4	**172.6**	(24.8)	(12.6)
RMBS	15.2	**14.4**	(0.7)	(4.9)
U.S. [1]	5.2	**5.2**	0.0	—
Europe	8.1	**7.3**	(0.7)	(9.3)
Other foreign countries	1.8	**1.8**	0.0	(0.2)
CMBS	15.7	**12.7**	(3.0)	(19.5)
U.S.	—	**—**		—
Europe	12.7	**10.0**	(2.7)	(21.6)
Other foreign countries	2.9	**2.6**	(0.3)	(10.7)
CDO	165.5	**144.5**	(20.9)	(12.7)
U.S.	103.0	**85.4**	(17.6)	(17.1)
Europe	62.4	**59.1**	(3.3)	(5.3)
Other foreign countries	—	**—**	—	—
ABS CDO	0.8	**0.8**	0.0	—
U.S. [1]	0.8	**0.8**	0.0	—
Europe	—	**—**	—	—
Other foreign countries	—	**—**	—	—
Yen-denominated foreign corporate and Government bonds	5.4	**5.4**	0.0	—
RMBS (Japan)	—	**—**	—	—
CMBS (Japan)	5.4	**5.4**	0.0	(0.1)
ABS CDO (Japan)	—	**—**	—	—
Book value of securities whose fair value is not readily determinable	8.3	**8.3**	0.0	—
Foreign Securities	8.3	**8.3**	0.0	—
RMBS (U.S.) [1]	8.3	**8.3**	0.0	—
Securities	230.8	**199.1**		
RMBS	36.5	**30.6**		
CMBS	21.1	**18.1**		
CDO	172.2	**149.5**		
ABS CDO	0.8	**0.8**		

OTHER MONETARY CLAIMS PURCHASED

	Billions of yen, %			
	As of March 31, 2008			
	Balance before Mark-to-Market Evaluation	Market Value or Balance	Unrealized Gains/ Losses (OCI)	Price Decline Ratio (%)
Trading Purposes	18.3	**18.3**		
RMBS (Japan)	13.5	**13.7**		
CMBS (Japan)	4.7	**4.5**		
Others	47.6	**47.6**	0.0	—
RMBS (Japan)	31.8	**31.8**	0.0	—
CMBS (Japan)	7.7	**7.7**	0.0	—
ABS CDO (Japan)	8.0	**8.0**	0.0	—
Total	65.9	**66.0**		
RMBS (Japan)	45.4	**45.6**		
CMBS (Japan)	12.4	**12.2**		
ABS CDO (Japan)	8.0	**8.0**		

	Balance before Mark-to-Market Evaluation	Market Value or Balance	Unrealized Gains/ Losses (OCI)	Price Decline Ratio (%)
RMBS, CMBS, CDO, ABS CDO Total	296.8	**265.1**		
Securities	230.8	**199.1**		
Other monetary claims purchased	65.9	**66.0**		

Note: (1) Securities with exposure to U.S. residential mortgage market.

TABLE 38. LBO, MONOLINE, SIV, ABCP [NON-CONSOLIDATED]

	Mar 31, 2008 (a)	Sep 30, 2007 (b)	Change (a)-(b)
	Billions of yen		
LBO[1]	**277.1**	309.7	(32.6)
Japan	**258.6**[2]	288.8	(30.2)
U.S.	**3.6**	4.4	(0.8)
Europe	**—**	—	—
Other	**14.8**	16.5	(1.7)
(Breakdown by Industry Sector as of March 31, 2008)			
Manufacturing	**8.6%**		
Information and communications	**16.3%**		
Wholesale and retail	**10.8%**		
Finance and insurance	**26.0%**		
Services	**38.4%**		
Others	**0.0%**		
Total	**100.0%**		

Notes: (1) The amount includes an unfunded commitment line.
(2) As of March 31, 2008, the unfunded commitment line (only domestic) is ¥23.0 billion.

	Mar 31, 2008 (a)	Sep 30, 2007 (b)	Change (a)-(b)
	Billions of yen		
Monoline	**1.4**	2.0	(0.6)
Japan	**—**	—	—
U.S.	**—**	—	—
Europe	**—**	—	—
Other	**1.4**	2.0	(0.6)
SIV	**—**	—	—
ABCP	**—**	—	—

TABLE 39. CREDIT DEFAULT SWAPS (CDS) [NON-CONSOLIDATED][1]

Billions of yen

	As of March 31, 2008							FY2007
	Nominal Amount		Fair Value		Netted Nominal Amount and Fair Value[2]			Realized profits (losses)
					Notional Value	Fair Value		
	Protection (buy)	Protection (sell)	Protection (buy)	Protection (sell)		Protection (buy)	Protection (sell)	
Total	1,387.3	1,454.9	53.0	(46.9)	1,160.1	39.8	(36.0)	5.1
Japan	1,252.6	1,325.6	46.8	(41.2)	107.1	35.9	(33.2)	6.1
U.S.	75.2	83.2	3.8	(4.2)	47.6	2.2	(1.5)	(1.5)
Europe	28.4	19.8	1.3	(0.4)	16.2	0.6	(0.3)	0.4
Other	30.9	26.2	1.0	(0.9)	25.2	1.0	(0.9)	0.0

Notes: (1) Represents transactions under trading book and differs from the figures of credit derivatives transactions in P144, which include the banking book as well as trading book.
(2) Transactions which are netted with buy and sell.

TABLE 40. DEFINED TERMS FOR TABLES 35-39

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.
CDO	Collateralized loan obligations (CLO) mainly backed by LBO debt, corporate loans and high-yield securities. Recorded in "trading securities" 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." We are holding one foreign currency-denominated ABS CDO backed by U.S. RMBS.
LBO	Loans for leveraged buyout for acquisition finance including refinancing of past acquisitions.
Subprime-Related	Subprime-related exposure is the total book value of securities whose underlying assets include U.S. subprime, Alt-A and/or second-lien loans, with the exception of one security whose underlying assets are comprised of a AAA-rated U.S. Treasury Note-based security and U.S. RMBS ("STRIPS-RMBS"). In the case of STRIPS-RMBS, which had a book value of \$83.3 million (or ¥8.3 billion) as of March 31, 2008, the fair value of the U.S. Treasury Note-based security (\$78.1 million as of March 31, 2008) is excluded from the calculation of subprime-related exposure (related footnotes can be found in Note 3 and Note 7 of Table 35 and Note 2 and Note 3 of Table 36). As of March 31, 2008, total subprime-related exposure stood at ¥3.7 billion.
Monoline	Monolines are insurance companies that insure against the risk of a bond or other security defaulting. As of March 31, 2008, the exposure guaranteed by monoline insurers is ¥1.4 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, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
ASSETS			
Cash and due from banks (Notes 4 and 23)	**¥ 505,630**	¥ 448,554	**$ 5,069,995**
Call loans	**—**	43,100	**—**
Receivables under resale agreements	**2,014**	—	**20,200**
Collateral related to securities borrowing transactions	**18,753**	11,050	**188,046**
Other monetary claims purchased (Notes 5 and 23)	**468,880**	366,505	**4,701,498**
Trading assets (Notes 6 and 36)	**315,287**	303,389	**3,161,409**
Monetary assets held in trust (Note 7)	**371,572**	502,332	**3,725,785**
Securities (Notes 8 and 23)	**1,980,292**	1,854,682	**19,856,534**
Loans and bills discounted (Notes 9, 23 and 34)	**5,622,266**	5,146,306	**56,374,876**
Foreign exchanges (Note 18)	**17,852**	15,047	**179,011**
Other assets (Notes 10, 23 and 36)	**1,100,151**	870,375	**11,031,304**
Premises and equipment (Notes 11, 23 and 31)	**305,771**	382,460	**3,065,995**
Intangible assets (Note 12)	**233,174**	244,155	**2,338,054**
Deferred issuance expenses for debentures	**125**	103	**1,259**
Deferred tax assets (Note 33)	**28,238**	42,474	**283,146**
Customers' liabilities for acceptances and guarantees (Note 22)	**701,717**	754,420	**7,036,170**
Reserve for credit losses (Note 13)	**(145,966)**	(147,275)	**(1,463,620)**
Total assets	**¥ 11,525,762**	¥ 10,837,683	**$ 115,569,662**
LIABILITIES AND EQUITY			
Liabilities:			
Deposits, including negotiable certificates of deposit (Notes 14 and 23)	**¥ 5,806,634**	¥ 5,420,930	**$ 58,223,547**
Debentures (Note 15)	**662,434**	703,298	**6,642,279**
Call money (Note 23)	**632,117**	692,792	**6,338,284**
Collateral related to securities lending transactions (Note 23)	**148,421**	8,333	**1,488,232**
Trading liabilities (Notes 16 and 36)	**205,011**	99,255	**2,055,667**
Borrowed money (Notes 17 and 23)	**1,127,227**	1,122,688	**11,302,797**
Foreign exchanges (Note 18)	**39**	118	**395**
Short-term corporate bonds	**73,600**	171,300	**737,993**
Corporate bonds (Note 19)	**426,286**	400,485	**4,274,408**
Other liabilities (Notes 20 and 36)	**708,749**	498,358	**7,106,687**
Accrued employees' bonuses	**14,572**	13,134	**146,115**
Accrued directors' bonuses	**249**	359	**2,499**
Reserve for employees' retirement benefits (Note 21)	**4,660**	3,521	**46,731**
Reserve for directors' retirement benefits	**132**		**1,329**
Reserve for losses on interest repayments	**39,333**	10,353	**394,402**
Reserve for losses on disposal of premises and equipment	**5,025**	—	**50,392**
Reserve under special law	**4**	3	**43**
Deferred tax liabilities (Note 33)	**4,283**	5,075	**42,949**
Acceptances and guarantees (Notes 22 and 23)	**701,717**	754,420	**7,036,170**
Total liabilities	**10,560,501**	9,904,430	**105,890,919**
Equity:			
Capital stock (Notes 25 and 26):			
Common stock	**476,296**	291,853	**4,775,864**
Preferred stock	**—**	159,443	**—**
Capital surplus	**43,558**	18,558	**436,763**
Stock acquisition rights (Note 26)	**1,257**	517	**12,612**
Retained earnings	**302,535**	245,499	**3,033,545**
Unrealized gain (loss) on available-for-sale securities	**(35,073)**	5,091	**(351,684)**
Deferred gain (loss) on derivatives under hedge accounting	**(1,057)**	(7,744)	**(10,604)**
Foreign currency translation adjustments	**1,872**	2,952	**18,778**
Treasury stock, at cost (Note 25)	**(72,566)**	(72,560)	**(727,633)**
Total	**716,823**	643,611	**7,187,641**
Minority interests in subsidiaries (Note 24)	**248,437**	289,642	**2,491,102**
Total equity	**965,261**	933,253	**9,678,743**
Total liabilities and equity	**¥ 11,525,762**	¥ 10,837,683	**$ 115,569,662**

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, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Interest income:			
Interest on loans and bills discounted	**¥ 187,782**	¥ 127,026	**$ 1,882,907**
Interest and dividends on securities	**42,768**	32,309	**428,844**
Interest on deposits with banks	**5,359**	4,284	**53,738**
Other interest income	**6,261**	9,198	**62,780**
Total interest income	**242,171**	172,818	**2,428,269**
Interest expenses:			
Interest on deposits, including negotiable certificates of deposit	**47,925**	34,341	**480,557**
Interest and discounts on debentures	**3,398**	3,006	**34,074**
Interest on other borrowings	**30,176**	16,964	**302,579**
Interest on corporate bonds	**15,278**	10,409	**153,194**
Other interest expenses	**7,617**	12,600	**76,382**
Total interest expenses	**104,395**	77,322	**1,046,786**
Net interest income	**137,775**	95,496	**1,381,483**
Fees and commissions income	**65,977**	70,858	**661,562**
Fees and commissions expenses	**25,141**	24,409	**252,098**
Net fees and commissions	**40,835**	46,449	**409,464**
Net trading income (Note 27)	**9,090**	17,809	**91,152**
Other business income (loss), net:			
Income on leased assets and installment receivables, net	**52,157**	51,123	**522,985**
Income on monetary assets held in trust, net	**20,967**	14,725	**210,245**
Net gain on foreign exchanges	**2,701**	10,423	**27,093**
Net gain (loss) on securities	**(10,427)**	15,144	**(104,561)**
Net gain on other monetary claims purchased	**15,408**	19,978	**154,499**
Other, net (Note 28)	**(5,816)**	(14,772)	**(58,327)**
Net other business income	**74,990**	96,622	**751,934**
Total revenue	**262,692**	256,378	**2,634,033**
General and administrative expenses:			
Personnel expenses	**64,526**	62,701	**647,011**
Premises expenses	**18,677**	17,359	**187,285**
Technology and data processing expenses	**21,803**	20,116	**218,626**
Advertising expenses	**9,958**	10,971	**99,856**
Consumption and property taxes	**8,455**	7,386	**84,785**
Deposit insurance premium	**3,431**	2,835	**34,409**
Other general and administrative expenses	**31,907**	28,862	**319,937**
General and administrative expenses	**158,761**	150,233	**1,591,909**
Amortization of goodwill and other intangible assets	**12,534**	20,800	**125,688**
Total general and administrative expenses	**171,295**	171,034	**1,717,597**
Net business profit	**91,396**	85,343	**916,436**
Net credit costs (Note 29)	**73,591**	51,934	**737,904**
Other gains (losses), net (Note 30)	**74,750**	(99,117)	**749,533**
Income (loss) before income taxes and minority interests	**92,556**	(65,708)	**928,065**
Income taxes (benefit) (Note 33):			
Current	**4,902**	3,249	**49,154**
Deferred	**9,500**	(24,615)	**95,261**
Minority interests in net income of subsidiaries	**18,044**	16,643	**180,938**
Net income (loss)	**¥ 60,108**	¥ (60,984)	**$ 602,712**

	Yen		U.S. dollars (Note 1)
Basic net income (loss) per common share (Note 37)	**¥ 38.98**	¥ (45.92)	**$ 0.39**
Diluted net income per common share (Note 37)	**32.44**		**0.32**
Cash dividends applicable to the year:			
Common share (Note 38)	**2.94**	2.66	**0.03**
Class-A preferred share (Note 38)	**6.50**	13.00	**0.07**
Class-B preferred share (Note 38)	**—**	4.84	**—**

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, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Common stock:			
Balance at beginning of year	**¥ 291,853**	¥ 180,853	**$ 2,926,439**
Issuance of new shares of common stock	**25,000**	—	**250,677**
Conversion from preferred stock	**159,443**	111,000	**1,598,748**
Balance at end of year	**476,296**	291,853	**4,775,864**
Preferred stock:			
Balance at beginning of year	**159,443**	270,443	**1,598,748**
Conversion into common stock	**(159,443)**	(111,000)	**(1,598,748)**
Balance at end of year	**—**	159,443	**—**
Capital surplus:			
Balance at beginning of year	**18,558**	18,558	**186,086**
Issuance of new shares of common stock	**25,000**	—	**250,677**
Balance at end of year	**43,558**	18,558	**436,763**
Stock acquisition rights:			
Balance at beginning of year	**517**		**5,188**
Net change during the year	**740**	517	**7,424**
Balance at end of year	**1,257**	517	**12,612**
Retained earnings:			
Balance at beginning of year	**245,499**	379,502	**2,461,642**
Dividends paid	**(3,072)**	(7,443)	**(30,803)**
Net income (loss)	**60,108**	(60,984)	**602,712**
Disposal of treasury stock	**—**	(15)	**—**
Retirement of treasury stock	**—**	(63,963)	**—**
Other changes by exclusion of affiliates	**—**	(1,595)	**—**
Changes by inclusion of subsidiaries (former non-consolidated subsidiaries)	**(0)**	—	**(6)**
Balance at end of year	**302,535**	245,499	**3,033,545**
Unrealized gain (loss) on available-for-sale securities:			
Balance at beginning of year	**5,091**	2,208	**51,055**
Net change during the year	**(40,165)**	2,882	**(402,739)**
Balance at end of year	**(35,073)**	5,091	**(351,684)**
Deferred gain (loss) on derivatives under hedge accounting:			
Balance at beginning of year	**(7,744)**		**(77,653)**
Net change during the year	**6,686**	(7,744)	**67,049**
Balance at end of year	**(1,057)**	(7,744)	**(10,604)**
Foreign currency translation adjustments:			
Balance at beginning of year	**2,952**	3,781	**29,606**
Net change during the year	**(1,079)**	(829)	**(10,828)**
Balance at end of year	**1,872**	2,952	**18,778**
Treasury stock, at cost:			
Balance at beginning of year	**(72,560)**	(12)	**(727,571)**
Purchase of treasury stock	**(1)**	(136,672)	**(20)**
Disposal of treasury stock	**—**	160	**—**
Retirement of treasury stock	**—**	63,963	**—**
Changes by inclusion of subsidiaries	**(4)**	—	**(42)**
Balance at end of year	**(72,566)**	(72,560)	**(727,633)**
Minority interests in subsidiaries:			
Balance at beginning of year	**289,642**		**2,904,264**
Net change during the year	**(41,204)**	289,642	**(413,162)**
Balance at end of year	**248,437**	289,642	**2,491,102**
Total equity	**¥ 965,261**	¥ 933,253	**$ 9,678,743**

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, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	**¥ 92,556**	¥ (65,708)	**$ 928,065**
Adjustments for:			
Income taxes paid	**(995)**	(5,684)	**(9,985)**
Depreciation	**138,530**	143,567	**1,389,053**
Amortization of goodwill and other intangible assets	**12,534**	20,800	**125,688**
Impairment losses on goodwill, other intangible assets and other	**919**	95,691	**9,223**
Net change in reserve for credit losses	**(688)**	2,406	**(6,904)**
Net change in other reserves	**(1,685)**	9,801	**(16,902)**
Interest income	**(242,171)**	(172,818)	**(2,428,270)**
Interest expenses	**104,395**	77,322	**1,046,786**
Investment (gains) losses	**3,919**	(28,583)	**39,296**
Net exchange (gain) loss	**25,522**	3,811	**255,916**
Net change in trading assets	**(11,897)**	(109,808)	**(119,300)**
Net change in trading liabilities	**105,764**	(50,735)	**1,060,510**
Net change in loans and bills discounted	**(385,175)**	(1,058,658)	**(3,862,178)**
Net change in deposits, including negotiable certificates of deposit	**389,111**	1,349,171	**3,901,649**
Net change in debentures	**(40,863)**	(315,610)	**(409,743)**
Net change in borrowed money (other than subordinated debt)	**(36,765)**	(47,062)	**(368,655)**
Net change in corporate bonds (other than subordinated corporate bonds)	**22,595**	7,141	**226,570**
Net change in interest-bearing deposits with banks	**80,196**	(28,630)	**804,133**
Net change in call loans, receivables under resale agreements, collateral related to securities borrowing transactions and other monetary claims purchased	**(61,820)**	(59,502)	**(619,881)**
Net change in call money, collateral related to securities lending transactions, commercial paper and short-term corporate bonds (liabilities)	**(26,287)**	709,226	**(263,588)**
Net change in foreign exchange assets	**(2,805)**	(2,907)	**(28,128)**
Net change in foreign exchange liabilities	**(79)**	79	**(797)**
Interest received	**246,447**	166,959	**2,471,150**
Interest paid	**(120,275)**	(78,506)	**(1,206,013)**
Net change in securities for trading purposes	**53,470**	46,072	**536,153**
Net change in monetary assets held in trust for trading purposes	**90,344**	(61,663)	**905,895**
Net change in leased assets	**(88,665)**	(121,645)	**(889,057)**
Other, net	**(28,991)**	(7,677)	**(290,701)**
Total adjustments	**224,583**	482,555	**2,251,920**
Net cash provided by (used in) operating activities	**317,139**	416,847	**3,179,985**
Cash flows from investing activities:			
Purchase of investments	**(2,793,634)**	(2,555,729)	**(28,011,980)**
Proceeds from sales of investments	**597,333**	260,930	**5,989,503**
Proceeds from maturity of investments	**1,902,928**	1,911,506	**19,080,803**
Purchase of premises and equipment (other than leased assets)	**(6,498)**	(3,734)	**(65,160)**
Proceeds from sales of premises and equipment (other than leased assets)	**119,795**	6,616	**1,201,200**
Proceeds from acquisition of new subsidiaries	**4,509**	—	**45,218**
Proceeds from sale of subsidiary's stocks	**24,999**	3,077	**250,670**
Payment for acquisition of business	**(31,302)**	—	**(313,875)**
Other, net	**(9,335)**	(17,832)	**(93,610)**
Net cash provided by (used in) investing activities	**(191,205)**	(395,165)	**(1,917,231)**
Cash flows from financing activities:			
Proceeds from subordinated debt	**—**	62,000	**—**
Repayment of subordinated debt	**—**	(98,000)	**—**
Proceeds from issuance of subordinated corporate bonds	**—**	92,161	**—**
Payment for redemption of subordinated corporate bonds	**(3,308)**	(10,945)	**(33,178)**
Proceeds from minority shareholders of subsidiaries	**1,223**	20,253	**12,265**
Payment for capital returned to minority shareholders of subsidiaries	**(18,622)**	(1,227)	**(186,729)**
Proceeds from issuance of stock	**49,777**	—	**499,124**
Dividends paid	**(3,072)**	(7,443)	**(30,803)**
Dividends paid to minority shareholders of subsidiaries	**(17,407)**	(11,175)	**(174,542)**
Purchase of treasury stock	**(1)**	(136,672)	**(19)**
Proceeds from sale of treasury stock	**—**	145	**—**
Net cash provided by (used in) financing activities	**8,588**	(90,903)	**86,118**
Foreign currency translation adjustments on cash and cash equivalents	**(89)**	1	**(895)**
Net change in cash and cash equivalents	**134,433**	(69,220)	**1,347,977**
Cash and cash equivalents at beginning of year	**271,493**	340,713	**2,722,283**
Cash and cash equivalents at end of year (Note 4)	**¥ 405,926**	¥ 271,493	**$ 4,070,260**

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, 2008 and 2007

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 Law 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 Law 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 ¥99.73 to U.S.$1.00, the rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 31, 2008. 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.

The Bank was placed under temporary nationalization by the Prime Minister of Japan on October 23, 1998, under Section 1 of Article 36 of the Financial Revitalization Law of Japan, and continued its operations in accordance with Articles 47 and 48 of the same law. The Bank's temporary nationalization status was terminated on March 1, 2000, when all common shares of the Bank held by the Deposit Insurance Corporation of Japan (the "DIC") were transferred to New LTCB Partners C.V. in accordance with the Share Purchase Agreement, dated February 9, 2000 (the "Share Purchase Agreement").

In the fiscal year ended March 31, 2004, the Bank completed an initial public offering (IPO) of its shares and became listed on the First Section of the Tokyo Stock Exchange on February 19, 2004. The Bank's then controlling shareholder, New LTCB Partners C.V., offered the shares sold in the IPO. Following the IPO, the Bank also completed a secondary share offering on February 17, 2005. Prior to the secondary offering, the Bank's controlling shareholder, New LTCB Partners C.V., distributed most of its shareholdings to its investors. The investors, in turn, sold an aggregate of 36.9% of the Bank's outstanding common shares in the secondary offering.

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 number of consolidated subsidiaries and affiliates as of March 31, 2008 and 2007 was as follows:

	2008	2007
Consolidated subsidiaries	**104**	95
Unconsolidated subsidiaries	**100**	90
Affiliates accounted for by the equity method	**30**	27

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, 2008 were as listed below:

Name	Location	Percentage ownership
APLUS Co., Ltd.	Japan	74.0%
Showa Leasing Co., Ltd.	Japan	96.4%
Shinki Co., Ltd.	Japan	67.7%
Shinsei Trust & Banking 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, 2008, the fiscal year ending dates are March 31 for 66 subsidiaries and December 31 for 38 subsidiaries. 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, except that 5 subsidiaries whose fiscal years end at December 31 are consolidated using their March 31 financial statements.

Major affiliates accounted for by the equity method as of March 31, 2008 were as listed below:

Name	Location	Percentage ownership
Hillcot Holdings Limited	Bermuda	33.7%
Jih Sun Financial Holding Company Limited	Taiwan	32.9%

(B) 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"), and Shinki Co., Ltd. ("Shinki"), 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	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 straight-line basis over 20 years. The amortization period is the maximum 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 amortized on a straight-line basis over 20 years, which is the maximum period allowed under Japanese GAAP.

(C) IMPAIRMENT OF GOODWILL AND OTHER INTANGIBLE ASSETS

The Bank conducts 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 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

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 non-discounted 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 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.

(D) 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 the respective period-end exchange rates.

(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 the exchange rates prevailing at the balance sheet date, except for investments in unconsolidated subsidiaries and affiliates which are translated at the relevant historical exchange rates.

(E) CASH AND CASH EQUIVALENTS

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

(F) 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, net.

(G) 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 securities 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.

(H) 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, 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.

(I) 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.

(J) 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, 2008 were as follows:

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

(K) 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).

(L) IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. An impairment loss is 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 is measured as the amount by which the carrying amount of an 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, 2008, mainly due to the decision to close some of the Bank's BankSpots and ATM sites, an impairment loss was recognized as other loss for the group of assets to be disposed by their total carrying amounts of ¥919 million (U.S.$9,223 thousand), assuming their recoverable amount is zero. No significant impairment loss was recognized for the fiscal year ended March 31, 2007.

(M) 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 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.

(N) 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 had previously been calculated by taking the greater result from the following two 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. However, the recent actual loan loss ratio has rapidly declined, resulting in a less reliable basis for loan loss calculation. Starting from the fiscal year ended March 31, 2007, the calculation methodology has been changed to taking the greater result of the following two methods: (A) the existing methodology mentioned above, or (B) the average of all calculation periods since 1998, the period for which records for loan losses have been maintained. As a result, the reserve for credit losses as of March 31, 2007 and the loss before income taxes and minority interests for the fiscal year ended March 31, 2007 were each ¥23,205 million higher than would have been the case using the previous calculation method.

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

The reserve for other credit losses primarily consists of reserves on amounts, included in accounts receivable, that the Bank believes the DIC is obligated to reimburse to it in accordance with certain indemnification clauses in the Share Purchase Agreement but which the DIC has 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 ¥96,378 million (U.S.$966,395 thousand) and ¥39,758 million as of March 31, 2008 and 2007, respectively.

(O) 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.

(P) RESERVE FOR EMPLOYEES' RETIREMENT BENEFITS

The Bank, APLUS, Showa Leasing and Shinki each have a noncontributory defined benefit pension plan and certain of the 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 mainly 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.

(Q) RESERVE FOR DIRECTORS' RETIREMENT BENEFITS

Prior to April 1, 2007, retirement benefits to directors were expensed when paid.

Effective April 1, 2007, retirement benefits to directors are provided at the amount that would be required if all directors retired at the balance sheet date in accordance with a Report of the Auditing and Assurance Practice Committee, "An Auditing Treatment for Retirement Benefits to Directors," which was published by the Japanese Institute of Certified Public Accountants on April 13, 2007 and is effective for fiscal years beginning on or after April 1, 2007. The effect of this change was to increase general and administrative expenses by ¥132 million ($1,329 thousand) and to decrease income before income taxes and minority interests by the same amount for the year ended March 31, 2008.

(R) 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 "Audit Guidelines"). These guidelines stipulate that consumer and commercial finance companies must 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. 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. The cumulative effect of the adoption of the Audit Guidelines, ¥909 million, was recorded in other gains (losses), net, for the fiscal year ended March 31, 2007.

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

A reserve for losses on disposal of premises and equipments is established based on reasonable estimates mainly for the restoration cost associated with the planned relocation of the headquarters of the Bank and some of the consolidated subsidiaries and the planned closure of some of the BankSpots and ATM sites for retail banking.

(T) 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 Law of Japan as of March 31, 2008 and with Article 51 of the former Securities and Exchange Law of Japan as of March 31, 2007.

(U) PRESENTATION OF EQUITY

On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, 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 was effective for fiscal years ended on or after May 1, 2006. Reclassification of prior years was not permitted.

(V) 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.

The Bank applied this accounting standard for stock options to those granted on and after May 1, 2006.

(W) LEASE TRANSACTIONS

Under Japanese accounting standards for leases, finance leases where the ownership of the property is deemed to transfer to the lessee are capitalized, while other finance leases can be accounted for as operating leases if certain "as if capitalized" information is disclosed in the notes to the consolidated financial statements. All leases entered into by the Bank and its consolidated domestic subsidiaries as lessee have been accounted for as operating leases.

Lease and rental income is recognized at the due date of each lease payment according to the lease contracts. Leased assets held by consolidated domestic subsidiaries as lessor are depreciated using the straight-line method over the leasing periods.

(X) INSTALLMENT SALES FINANCE AND CREDIT GUARANTEES

Fees from installment sales finance have principally been prorated over the respective number of installments, and the prorated amounts have been recognized as income either when they become due (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.

(Y) 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.

(Z) 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.

(AA) 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.

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, 2008 and 2007 were ¥11 million (U.S.$116 thousand) and ¥21 million, respectively.

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.

(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 bought or sold. 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 bought or sold.

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.

(AB) 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.

Cash dividends per common share and per Class-A and Class-B preferred shares presented in the accompanying consolidated statements of operations are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the fiscal year, which are retroactively adjusted for stock splits and reverse stock splits.

(AC) NEW ACCOUNTING PRONOUNCEMENTS

Lease Accounting—On March 30, 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions," which revised the existing accounting standard for lease transactions issued on June 17, 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008.

Lessee

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions shall be capitalized recognizing lease assets and lease obligations in the balance sheet.

Lessor

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessor's financial statements. The revised accounting standard requires that all finance leases that deem to transfer ownership of the leased property to the lessee shall be recognized as lease receivables, and all finance leases that do not deem to transfer ownership of the leased property to the lessee shall be recognized as investments in leases.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—Under Japanese GAAP, a company currently can use the financial statements of its foreign subsidiaries which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No.18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new standard prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;
(1) Amortization of goodwill

(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for premises and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008.

(AD) RECLASSIFICATIONS

Certain reclassifications have been made to the consolidated financial statements for the fiscal year ended March 31, 2007 to conform to the presentation for the fiscal year ended March 31, 2008.

3. ACQUISITION

CONSOLIDATED

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	Thousands of U.S. dollars
Cash and due from banks	¥ 23,097	$ 231,600
Securities	676	6,776
Loans	113,940	1,142,490
Other assets	6,411	64,290
Premises and equipment	4,515	45,270
Intangible assets (Including ¥7,107 million of intangible assets recognized through fair value review)	8,648	86,714
Deferred tax assets	4,432	44,438
Total assets acquired	161,719	1,621,578
Borrowed money	(70,576)	(707,671)
Commercial paper	(8,000)	(80,217)
Corporate bonds	(19,800)	(198,536)
Other liabilities	(6,244)	(62,616)
Reserve for losses on interest repayments	(38,224)	(383,278)
Deferred tax liabilities	(3,638)	(36,479)
Total liabilities assumed	(146,482)	(1,468,797)
Minority interest	(4,909)	(49,226)
Treasury stock	4	42
Net assets acquired (cumulative)	10,331	103,597
Cumulative purchase price (see below)	3,083	30,920
Negative goodwill	(7,248)	(72,677)

Cumulative purchase price calculated as follows:

	Millions of yen	Thousands of U.S. dollars
Subscription price of the shareholder rights	¥ 7,682	$ 77,030
Net book value of the investment in Shinki prior to the deemed acquisition date	(4,598)	(46,110)
Cumulative purchase price	3,083	30,920

3. ACQUISITION (CONTINUED) CONSOLIDATED

Proceeds from acquisition of new subsidiaries:

	Millions of yen	Thousands of U.S. dollars
Subscription price of the shareholder rights	¥ 7,682	$ 77,030
Cash and cash equivalents of Shinki	12,191	122,248
Proceeds from acquisition of new subsidiaries	4,509	45,218

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, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash and due from banks	¥ 505,630	¥ 448,554	$ 5,069,995
Interest-bearing deposits included in due from banks	(99,703)	(177,061)	(999,735)
Cash and cash equivalents at end of year	¥ 405,926	¥ 271,493	$ 4,070,260

5. OTHER MONETARY CLAIMS PURCHASED CONSOLIDATED

(a) Other monetary claims purchased as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Trading purposes	¥ 280,630	¥ 281,034	$ 2,813,905
Other	188,249	85,470	1,887,593
Total	¥ 468,880	¥ 366,505	$ 4,701,498

(b) The fair value and the unrealized loss of other monetary claims purchased for trading purposes as of March 31, 2008 and 2007 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2008		2007		2008	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Trading purposes	¥ 280,630	¥ 12,697	¥ 281,034	¥ 7,717	$ 2,813,905	$ 127,314

6. TRADING ASSETS CONSOLIDATED

Trading assets as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Trading securities	¥ 13,941	¥ 12,427	$ 139,795
Derivatives for trading securities	18,042	8,973	180,909
Securities held to hedge trading transactions	65,927	186,150	661,064
Derivatives for securities held to hedge trading transactions	16,633	3,555	166,783
Trading-related financial derivatives	192,055	91,624	1,925,750
Other trading assets	8,687	657	87,108
Total	¥ 315,287	¥ 303,389	$ 3,161,409

7. MONETARY ASSETS HELD IN TRUST

CONSOLIDATED

(a) Monetary assets held in trust as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Trading purposes	**¥ 248,752**	¥ 339,097	**$ 2,494,265**
Other	**122,819**	163,235	**1,231,520**
Total	**¥ 371,572**	¥ 502,332	**$ 3,725,785**

(b) The fair value and the unrealized loss of monetary assets held in trust for trading purposes as of March 31, 2008 and 2007 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2008		2007		**2008**	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Trading purposes	**¥ 248,752**	**¥ 5,603**	¥ 339,097	¥ 5,629	**$ 2,494,265**	**$ 56,191**

(c) The acquisition cost, which is the same as the book value, of monetary assets held in trust for other than trading purposes as of March 31, 2008 and 2007 was ¥122,819 million (U.S.$1,231,520 thousand) and ¥163,235 million, respectively.

8. SECURITIES

CONSOLIDATED

(a) Securities as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Trading securities	**¥ 63,122**	¥ 116,593	**$ 632,939**
Securities being held to maturity	**390,495**	407,000	**3,915,526**
Securities available-for-sale:			
Marketable securities, at fair value	**1,055,601**	1,016,315	**10,584,595**
Book value of securities whose fair value is not readily determinable	**421,530**	251,180	**4,226,715**
Investments in unconsolidated subsidiaries, at cost and affiliates using the equity method	**49,541**	63,593	**496,759**
Total	**¥ 1,980,292**	¥ 1,854,682	**$ 19,856,534**

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, 2008 and 2007 were ¥84,384 million (U.S.$846,128 thousand) and ¥60,379 million, respectively. In addition, ¥3,058 million ($30,662 thousand) and ¥4,604 million of those securities were further pledged as of March 31, 2008 and 2007, respectively.

The amount of guarantee obligations for privately-placed bonds (Item 3 of Article 2 of the Financial Instruments and Exchange Law as of March 31, 2008, Item 3 of Article 2 of the former Securities and Exchange Law as of March 31, 2007), out of bonds included in securities as of March 31, 2008 and 2007 were ¥78,691 million (U.S.$789,050 thousand) and ¥90,671 million, respectively.

(b) The amortized cost and the fair value of marketable securities (other than trading securities) as of March 31, 2008 and 2007 were as follows:

	Millions of yen							
	2008				2007			
	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	¥ 304,333	¥ 1,901	¥ 66	¥ 306,168	¥ 364,526	¥ 159	¥ 1,347	¥ 363,337
Japanese corporate bonds	75,138	1,381	—	76,519	42,474	8	42	42,440
Other	11,023	1,347	—	12,371	—	—	—	—
Total	¥ 390,495	¥ 4,630	¥ 66	¥ 395,059	¥ 407,000	¥ 168	¥ 1,390	¥ 405,777
Securities available-for-sale:								
Equity securities	¥ 22,300	¥ 1,068	¥ 4,226	¥ 19,142	¥ 21,395	¥ 2,372	¥ 1,366	¥ 22,402
Japanese national government bonds	344,819	378	4,148	341,048	389,570	23	3,709	385,883
Japanese local government bonds	2,205	58	—	2,264	53,262	8	19	53,251
Japanese corporate bonds	201,297	647	337	201,608	134,838	381	53	135,166
Other, mainly foreign debt securities	520,220	8,479	37,162	491,537	409,045	11,372	806	419,611
Total	¥ 1,090,844	¥ 10,631	¥ 45,874	¥ 1,055,601	¥ 1,008,112	¥ 14,159	¥ 5,956	¥ 1,016,315

	Thousands of U.S. dollars			
	2008			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
Securities being held to maturity:				
Japanese national government bonds	$ 3,051,571	$ 19,069	$ 665	$ 3,069,975
Japanese corporate bonds	753,417	13,852	—	767,269
Foreign debt securities	110,538	13,512	—	124,050
Total	$ 3,915,526	$ 46,433	$ 665	$ 3,961,294
Securities available-for-sale:				
Equity securities	$ 223,612	$ 10,712	$ 42,377	$ 191,947
Japanese national government bonds	3,457,526	3,791	41,596	3,419,721
Japanese local government bonds	22,114	589	—	22,703
Japanese corporate bonds	2,018,430	6,492	3,382	2,021,540
Other, mainly foreign debt securities	5,216,292	85,020	372,628	4,928,684
Total	$10,937,974	$ 106,604	$ 459,983	$10,584,595

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, 2008 and 2007 were ¥5,454 million (U.S.$54,697 thousand) and ¥517 million, respectively.

(c) Securities available-for-sale sold during the fiscal years ended March 31, 2008 and 2007 were as follows:

	Millions of yen					
	2008			2007		
	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	¥ 536,145	¥ 6,025	¥ 1,235	¥ 207,162	¥ 9,056	¥ 2,470

	Thousands of U.S. dollars		
	2008		
	Proceeds from sales	Total amount of gains on sales	Total amount of losses on sales
Securities available-for-sale sold	$ 5,375,973	$ 60,415	$ 12,385

8. SECURITIES (CONTINUED) CONSOLIDATED

(d) The book value (amortized cost) of securities available-for-sale whose fair value was not readily determinable as of March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Equity securities	**¥ 14,989**	¥ 7,969	**$ 150,297**
Japanese local government bonds	**4**	4	**40**
Japanese corporate bonds	**283,743**	156,939	**2,845,114**
Foreign securities	**61,436**	69,489	**616,031**
Other	**61,357**	16,777	**615,233**
Total	**¥ 421,530**	¥ 251,180	**$ 4,226,715**

(e) Redemption schedules for securities being held to maturity and available-for-sale as of March 31, 2008 and 2007 were as follows:

	Millions of yen							
	2008				2007			
	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	**¥ 298,680**	**¥ 300,618**	**¥ —**	**¥ 46,083**	¥ 319,016	¥ 384,422	¥ —	¥ 46,970
Japanese local government bonds	**4**	**1,738**	**525**	**—**	51,554	507	1,193	—
Japanese corporate bonds	**164,110**	**369,027**	**27,351**	**—**	139,770	169,110	25,699	—
Subtotal	**462,795**	**671,384**	**27,876**	**46,083**	510,341	554,039	26,892	46,970
Other	**26,086**	**203,360**	**165,234**	**162,753**	4,342	128,751	164,895	161,583
Total	**¥ 488,882**	**¥ 874,744**	**¥ 193,111**	**¥ 208,836**	¥ 514,684	¥ 682,791	¥ 191,787	¥ 208,554

	Thousands of U.S. dollars			
	2008			
	1 year or less	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years
Bonds:				
Japanese national government bonds	**$ 2,994,891**	**$ 3,014,321**	**$ —**	**$ 462,080**
Japanese local government bonds	**45**	**17,433**	**5,265**	**—**
Japanese corporate bonds	**1,645,552**	**3,700,266**	**274,253**	**—**
Subtotal	**4,640,488**	**6,732,020**	**279,518**	**462,080**
Other	**261,574**	**2,039,107**	**1,656,822**	**1,631,936**
Total	**$ 4,902,062**	**$ 8,771,127**	**$ 1,936,340**	**$ 2,094,016**

9. LOANS AND BILLS DISCOUNTED CONSOLIDATED

Loans and bills discounted as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Loans on deeds	**¥ 4,717,711**	¥ 4,423,269	**$ 47,304,840**
Loans on bills	**91,849**	83,241	**920,987**
Bills discounted	**2,036**	2,423	**20,421**
Overdrafts	**810,668**	637,372	**8,128,628**
Total	**¥ 5,622,266**	¥ 5,146,306	**$ 56,374,876**

(a) Loans and bills discounted included loans to bankrupt obligors totaling ¥2,173 million (U.S.$21,798 thousand) and ¥1,748 million as of March 31, 2008 and 2007, respectively, as well as non-accrual delinquent loans totaling ¥42,528 million (U.S.$426,436 thousand) and ¥21,849 million as of March 31, 2008 and 2007, respectively.

Non-accrual delinquent loans include 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 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, 2008 and 2007 were ¥4,792 million (U.S.$48,051 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, 2008 and 2007 were ¥54,980 million (U.S.$551,289 thousand) and ¥36,422 million, respectively.

(b) The total outstanding amounts deducted from the loan account for loan participations as of March 31, 2008 and 2007 were ¥61,144 million (U.S.$613,098 thousand) and ¥83,124 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 ¥157,021 million (U.S.$1,574,471 thousand) and ¥93,818 million as of March 31, 2008 and March 31, 2007, respectively.

(c) The amount of loans sold through senior certificates under a collateralized loan obligation ("CLO") securitization totaled ¥129,695 million as of March 31, 2007, with the subordinated certificates retained by the Bank totaling ¥43,862 million as of March 31, 2007, recorded as loans.

A reserve for credit losses was established based on the aggregate amount of the senior and subordinated certificate portions described above, taking into consideration all credit risks to be absorbed by the subordinated certificates.

(d) 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 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 values of such bills discounted held as of March 31, 2008 and 2007 were ¥2,199 million (U.S.$22,055 thousand) and ¥179 million, respectively.

10. OTHER ASSETS

CONSOLIDATED

Other assets as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Accrued income	**¥ 42,335**	¥ 40,705	**$ 424,498**
Prepaid expenses	**6,825**	6,102	**68,436**
Fair value of derivatives	**389,006**	124,760	**3,900,600**
Financial stabilization fund contribution	**70,239**	70,239	**704,292**
Accounts receivable	**56,764**	74,357	**569,186**
Installment receivables	**421,817**	440,864	**4,229,592**
Security deposits	**17,623**	15,320	**176,717**
Suspense payments	**40,582**	46,643	**406,920**
Other	**54,957**	51,379	**551,063**
Total	**¥ 1,100,151**	¥ 870,375	**$ 11,031,304**

Installment receivables in other assets as of March 31, 2008 and 2007 included credits to bankrupt obligors totaling ¥2,635 million (U.S.$26,426 thousand) and ¥279 million, non-accrual delinquent credits totaling ¥4,908 million (U.S.$49,215 thousand) and ¥3,192 million, credits past due for three months or more of ¥1,340 million (U.S.$13,437 thousand) and ¥1,733 million, and restructured credits of ¥6,782 million (U.S.$68,009 thousand) and ¥10,271 million, respectively.

11. PREMISES AND EQUIPMENT

CONSOLIDATED

Premises and equipment as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Buildings	**¥ 28,299**	¥ 50,409	**$ 283,762**
Land	**10,689**	41,756	**107,185**
Tangible leased assets	**548,364**	503,965	**5,498,491**
Other	**21,819**	17,425	**218,788**
Subtotal	**609,173**	613,556	**6,108,226**
Accumulated depreciation	**(303,401)**	(231,096)	**(3,042,231)**
Net book value	**¥ 305,771**	¥ 382,460	**$ 3,065,995**

12. INTANGIBLE ASSETS

CONSOLIDATED

Intangible assets as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Software	**¥ 27,499**	¥ 24,221	**$ 275,741**
Goodwill, net			
Goodwill	**149,314**	158,837	**1,497,189**
Negative goodwill	**(7,075)**	(770)	**(70,945)**
Intangible assets acquired through acquisitions	**23,676**	19,826	**237,407**
Intangible leased assets	**39,668**	41,912	**397,764**
Other	**89**	127	**898**
Total	**¥ 233,174**	¥ 244,155	**$ 2,338,054**

13. RESERVE FOR CREDIT LOSSES

CONSOLIDATED

Reserve for credit losses as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Reserve for loan losses:			
General reserve	**¥ 96,650**	¥ 101,268	**$ 969,121**
Specific reserve	**23,236**	13,565	**232,994**
Reserve for loans to restructuring countries	**15**	9	**154**
Subtotal	**119,902**	114,843	**1,202,269**
Specific reserve for other credit losses	**26,064**	32,432	**261,351**
Total	**¥ 145,966**	¥ 147,275	**$ 1,463,620**

14. DEPOSITS, INCLUDING NEGOTIABLE CERTIFICATES OF DEPOSIT

CONSOLIDATED

Deposits, including negotiable certificates of deposit, as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Current	**¥ 23,814**	¥ 25,508	**$ 238,788**
Ordinary	**1,377,135**	1,534,788	**13,808,637**
Notice	**20,376**	37,660	**204,313**
Time	**3,523,765**	2,931,633	**35,333,054**
Negotiable certificates of deposit	**577,189**	480,199	**5,787,523**
Other	**284,353**	411,139	**2,851,232**
Total	**¥ 5,806,634**	¥ 5,420,930	**$ 58,223,547**

15. DEBENTURES

CONSOLIDATED

Debentures as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Coupon debentures	**¥ 662,434**	¥ 703,298	**$ 6,642,279**

Annual maturities of debentures as of March 31, 2008 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥ 147,695	$ 1,480,956
2010	122,656	1,229,881
2011	175,098	1,755,722
2012	111,713	1,120,162
2013 and thereafter	105,270	1,055,558
Total	¥ 662,434	$ 6,642,279

16. TRADING LIABILITIES

CONSOLIDATED

Trading liabilities as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Derivatives for trading securities	**¥ 19,468**	¥ 16,224	**$ 195,210**
Derivatives for securities held to hedge trading transactions	**4,625**	884	**46,380**
Trading-related financial derivatives	**180,890**	82,004	**1,813,803**
Other	**27**	142	**274**
Total	**¥ 205,011**	¥ 99,255	**$ 2,055,667**

17. BORROWED MONEY

CONSOLIDATED

Borrowed money as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Subordinated debt	**¥ 108,000**	¥ 108,000	**$ 1,082,924**
Borrowings from other financial institutions	**1,019,227**	1,014,688	**10,219,873**
Total	**¥ 1,127,227**	¥ 1,122,688	**$ 11,302,797**

The weighted average interest rate applicable to the balance of total borrowed money as of March 31, 2008 was 1.50%.

Annual maturities of borrowed money as of March 31, 2008 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥ 472,768	$ 4,740,479
2010	183,218	1,837,143
2011	181,404	1,818,953
2012	50,348	504,845
2013 and thereafter	239,489	2,401,377
Total	¥ 1,127,227	$ 11,302,797

18. FOREIGN EXCHANGES

CONSOLIDATED

The assets and liabilities related to foreign currency trade financing activities of the Bank as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Foreign exchange assets:			
Foreign bills bought	**¥ 162**	¥ 169	**$ 1,635**
Foreign bills receivable	**2,155**	619	**21,613**
Due from foreign banks	**15,534**	14,259	**155,763**
Total	**¥ 17,852**	¥ 15,047	**$ 179,011**
Foreign exchange liabilities:			
Foreign bills payable	**¥ 36**	¥ 116	**$ 371**
Due to foreign banks	**2**	2	**24**
Total	**¥ 39**	¥ 118	**$ 395**

19. CORPORATE BONDS

CONSOLIDATED

Corporate bonds as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Corporate bonds	**¥ 85,043**	¥ 43,319	**$ 852,732**
Subordinated bonds	**341,243**	357,166	**3,421,676**
Total	**¥ 426,286**	¥ 400,485	**$ 4,274,408**

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 interests 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 interests at the fixed rate per annum of 5.625% through December 6, 2013, and at the floating rate per annum equal to the London inter-bank offered rate 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.

Annual maturities of corporate bonds as of March 31, 2008 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥ 21,361	$ 214,192
2010	14,989	150,302
2011	33,054	331,441
2012	1,304	13,083
2013 and thereafter	355,576	3,565,390
Total	¥ 426,286	$ 4,274,408

20. OTHER LIABILITIES

CONSOLIDATED

Other liabilities as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Accrued expenses	**¥ 33,430**	¥ 47,699	**$ 335,210**
Unearned income	**2,047**	1,894	**20,529**
Income taxes payable	**5,554**	1,796	**55,700**
Fair value of derivatives	**353,722**	91,717	**3,546,799**
Matured debentures, including interest	**28,482**	32,795	**285,592**
Trust account	**4,588**	15,182	**46,014**
Accounts payable	**56,820**	81,537	**569,746**
Deferred gains on installment receivables	**37,729**	43,486	**378,317**
Deposits payable	**125,120**	113,157	**1,254,588**
Other	**61,253**	69,089	**614,192**
Total	**¥ 708,749**	¥ 498,358	**$ 7,106,687**

21. RESERVE FOR EMPLOYEES' RETIREMENT BENEFITS

CONSOLIDATED

The following table presents the funded status of the plans as of March 31, 2008 and 2007:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Projected benefit obligation	**¥ (69,056)**	¥ (68,303)	**$ (692,439)**
Fair value of plan assets	**61,589**	69,467	**617,558**
Funded status (projected benefit obligation in excess of plan assets)	**(7,467)**	1,164	**(74,881)**
Unrecognized prior service cost	**(3,823)**	(4,295)	**(38,336)**
Unrecognized net actuarial losses	**10,070**	2,418	**100,973**
Unrecognized obligation at transition	**4,237**	4,852	**42,494**
Net amount accrued on the balance sheets	**3,016**	4,140	**30,250**
Prepaid pension cost	**7,677**	7,661	**76,981**
Reserve for retirement benefits	**¥ (4,660)**	¥ (3,521)	**$ (46,731)**

The following table provides the components of net periodic retirement benefit cost for the fiscal years ended March 31, 2008 and 2007:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Service cost	**¥ 3,694**	¥ 3,295	**$ 37,040**
Interest cost	**1,443**	1,471	**14,471**
Expected return on plan assets	**(1,586)**	(1,597)	**(15,910)**
Amortization of prior service cost	**(419)**	(438)	**(4,202)**
Amortization of net actuarial losses	**1,268**	594	**12,722**
Amortization of unrecognized obligation at transition	**607**	610	**6,091**
Other (mainly consists of extraordinary severance benefit)	**1,235**	6,057	**12,392**
Net periodic retirement benefit cost	**¥ 6,243**	¥ 9,994	**$ 62,604**

Assumptions used in calculation of the above information were as follows:

	Millions of yen	
	2008	2007
Discount rate	**1.50-2.20%**	1.50-2.20%
Expected rate of return on plan assets	**0.75-3.50%**	1.50-3.50%
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

21. RESERVE FOR EMPLOYEES' RETIREMENT BENEFITS (CONTINUED) CONSOLIDATED

The table includes benefit obligations of 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, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Guarantees	**¥ 701,717**	¥ 754,420	**$ 7,036,170**

23. ASSETS PLEDGED AS COLLATERAL CONSOLIDATED

Assets pledged as collateral and debts collateralized as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Assets:			
Cash and due from banks	**¥ 643**	¥ 70	**$ 6,448**
Other monetary claims purchased	**47,380**	—	**475,083**
Securities	**530,791**	240,740	**5,322,282**
Loans and bills discounted	**19,192**	2,576	**192,442**
Building	**855**	—	**8,578**
Land	**1,365**	—	**13,694**
Debts:			
Deposits, including negotiable certificates of deposit	**¥ 1,058**	¥ 568	**$ 10,613**
Call money	**180,000**	—	**1,804,873**
Collateral related to securities lending transactions	**148,421**	8,333	**1,488,232**
Borrowed money	**80,294**	20,218	**805,122**
Acceptances and guarantees	**908**	902	**9,110**

A total of ¥33,429 million (U.S.$335,202 thousand) and ¥30,862 million of unearned lease claims were pledged as collateral for the abovementioned borrowed money as of March 31, 2008 and 2007, respectively.

In addition, ¥162,420 million (U.S.$1,628,602 thousand) of securities as of March 31, 2008, and ¥141,344 million of securities as of March 31, 2007 were pledged as collateral for transactions, including exchange settlements, swap transactions and replacement of margin for future trading.

Also, ¥91 million (U.S.$917 thousand) and ¥13,432 million of margin deposits for futures transactions outstanding were included in other assets as of March 31, 2008 and 2007, respectively. In addition, ¥5,603 million (U.S.$56,191 thousand) of cash collateral pledged for derivative transactions are included in other assets.

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.

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 (common stock and preferred stock) as of March 31, 2008 was as follows:

(a) 2,500,000 thousand common shares.

(b) 674,528 thousand preferred shares, non-voting and ranking prior to common shares with respect to payment of dividends and distribution on liquidation or winding-up of the Bank. The dividend rate and redemption and conversion rights, if any, are to be determined by the Board of Directors of the Bank prior to issuance.

The following table shows changes in the number of shares of common stock, preferred stock and treasury stock.

	Thousands					
	Issued number of shares			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, 2007:						
Beginning of year	1,358,537	74,528	600,000	17	—	—
Increase	200,033	—	—	181,624	—	300,000
Decrease	(85,000)	—	(300,000)	(85,216)	—	(300,000)
End of year	1,473,570	74,528	300,000	96,425	—	—
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	—	—

On July 31, 2006, the Deposit Insurance Corporation of Japan (the "DIC") accepted the Bank's proposal for the Resolution and Collection Corporation (the "RCC") to dispose of its holdings of the Bank's common shares through a market transaction, following the conversion of 300,000 thousand out of the 600,000 thousand Class-B preferred shares issued by the Bank into 200,033 thousand of the Bank's common shares. The conversion price of the preferred shares was ¥599.90. In order to respond to a subsequent sale by the RCC, the Bank's Board of Directors approved the purchase of up to 201,000 thousand common shares for a maximum amount of ¥154 billion as treasury stock. Effective August 1, 2006, the conversion price of the remaining 300,000 thousand Class-B preferred shares was revised from ¥599.90 to ¥735.

On August 16, 2006, the Bank proposed and obtained approval from the DIC for the RCC's sale of the Bank's common shares through a market transaction. In order to purchase the common shares in response to such a sale by the RCC, the Bank determined to place a purchase order at the closing price of ¥753 on the Tokyo Stock Exchange as of August 16, 2006 through ToSTNeT-2, the system of the Tokyo Stock Exchange for transactions at closing price, to be effected at 8:45 a.m. on August 17, 2006.

On August 17, 2006, following the RCC's sale of its holdings of the Bank's common shares (200,033 thousand shares) through ToSTNeT-2, the Bank placed a purchase order for the

200,033 thousand shares through ToSTNeT-2. Due to additional orders by others, the Bank's order resulted in the purchase of 175,466 thousand shares for the aggregate amount of ¥132,125 million.

The Bank purchased an additional 338 shares, the shares representing any fraction of the one unit of shares (tangen-kabu), following the request by the RCC pursuant to Article 192 of the Corporate Law.

On November 16, 2006, the Bank canceled 85,000 thousand common shares.

On August 1, 2007, pursuant to the provisions of Shinsei Bank's Articles of Incorporation concerning the mandatory acquisition of 300,000 thousand Class-B preferred shares issued by the Bank, owned entirely by the RCC, the Bank acquired all relevant preferred shares and issued 200,000 thousand of the Bank's common shares in exchange for these preferred shares. 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 "Corporate Law").

On February 4, 2008, the Bank issued 117,647 thousand 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 thousand Class-A preferred shares and issued 269,128 thousand 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 Corporate Law.

Since May 1, 2006, Japanese banks have been subject to the Corporate Law, which reformed and replaced the Commercial Code of Japan and the Banking Law. The significant provisions in the Corporate Law and the Banking Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting, if companies meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term or 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 Corporate Law, 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 Corporate Law 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 Corporate Law 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 appropriate 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 stated capital.

The Corporate Law also provides that stated capital, 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 Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution 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 Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity. The Corporate Law 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 ¥740 million (U.S.$7,424 thousand) and ¥517 million for the fiscal years ended March 31, 2008 and 2007.

(a) Details of stock options

Details of stock options as of March 31, 2008 and 2007 are as follows:

	Date of issuance	Total number of stock options (shares) March 31, 2007	Total number of stock options (shares) March 31, 2008	Total number of holders March 31, 2007	Total number of holders March 31, 2008	Exercise period	Exercise price
1st	July 1, 2004	9,455,000	9,455,000	2,196	2,196	July 1, 2006-June 23, 2014	¥684
2nd	October 1, 2004	161,000	161,000	3	3	July 1, 2006-June 23, 2014	¥646
3rd	December 10, 2004	25,000	25,000	1	1	July 1, 2006-June 23, 2014	¥697
4th	June 1, 2005	250,000	250,000	1	1	July 1, 2006-June 23, 2014	¥551
5th	June 27, 2005	4,922,000	4,922,000	462	462	July 1, 2007-June 23, 2015	¥601
6th	June 27, 2005	2,856,000	2,856,000	40	40	July 1, 2007-June 23, 2015	¥601
7th	June 27, 2005	1,287,000	1,287,000	135	135	July 1, 2008-June 23, 2015	¥601
8th	June 27, 2005	561,000	561,000	35	35	July 1, 2008-June 23, 2015	¥601
9th	September 28, 2005	157,000	157,000	2	2	July 1, 2007-June 23, 2015	¥697
10th	September 28, 2005	53,000	53,000	2	2	July 1, 2008-June 23, 2015	¥697
11th	March 1, 2006	50,000	50,000	2	2	July 1, 2007-June 23, 2015	¥774
12th	March 1, 2006	17,000	17,000	2	2	July 1, 2008-June 23, 2015	¥774
13th	May 25, 2006	5,342,000	5,342,000	588	588	June 1, 2008-June 23, 2015	¥825
14th	May 25, 2006	3,027,000	3,027,000	31	31	June 1, 2008-June 23, 2015	¥825
15th	May 25, 2006	1,439,000	1,439,000	171	171	June 1, 2009-June 23, 2015	¥825
16th	May 25, 2006	331,000	331,000	19	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

(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, 2007				
Non-vested (share)				
Outstanding at the beginning of the year	7,243,000	161,000	25,000	250,000
Granted during the year	—	—	—	—
Forfeited during the year	625,000	—	—	—
Vested during the year	3,738,000	82,000	13,000	125,000
Outstanding at the end of the year	2,880,000	79,000	12,000	125,000
Vested (share)				
Outstanding at the beginning of the year	490,000	—	—	—
Vested during the year	3,738,000	82,000	13,000	125,000
Exercised during the year	156,000	60,000	—	—
Forfeited during the year	—	—	—	—
Exercisable at the end of the year	4,072,000	22,000	13,000	125,000
Exercise price (Yen)	684	646	697	551
Weighted average stock price at the date of exercise	721	739	—	—
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	—	—

	5th	6th	7th	8th
Fiscal year ended March 31, 2007				
Non-vested (share)				
Outstanding at the beginning of the year	4,070,000	2,579,000	981,000	514,000
Granted during the year	—	—	—	—
Forfeited during the year	640,000	251,000	154,000	108,000
Vested during the year	30,000	—	—	—
Outstanding at the end of the year	3,400,000	2,328,000	827,000	406,000
Vested (share)				
Outstanding at the beginning of the year	497,000	220,000	214,000	26,000
Vested during the year	30,000	—	—	—
Exercised during the year	—	—	—	—
Forfeited during the year	—	—	—	—
Exercisable at the end of the year	527,000	220,000	214,000	26,000
Exercise price (Yen)	601	601	601	601
Weighted average stock price at the date of exercise	—	—	—	—
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	—	—	—	—

	9th	10th	11th	12th
Fiscal year ended March 31, 2007				
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	—	—	—	—
Vested during the year	—	—	—	—
Outstanding at the end of the year	157,000	53,000	50,000	17,000
Vested (share)				
Outstanding at the beginning of the year	—	—	—	—
Vested during the year	—	—	—	—
Exercised during the year	—	—	—	—
Forfeited during the year	—	—	—	—
Exercisable at the end of the year	—	—	—	—
Exercise price (Yen)	697	697	774	774
Weighted average stock price at the date of exercise	—	—	—	—
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	—	—	—	—

	13th	14th	15th	16th
Fiscal year ended March 31, 2007				
Non-vested (share)				
Outstanding at the beginning of the year	—	—	—	—
Granted during the year	5,342,000	3,027,000	1,439,000	331,000
Forfeited during the year	658,000	347,000	178,000	116,000
Vested during the year	227,000	—	66,000	—
Outstanding at the end of the year	4,457,000	2,680,000	1,195,000	215,000
Vested (share)				
Outstanding at the beginning of the year	—	—	—	—
Vested during the year	227,000	—	66,000	—
Exercised during the year	—	—	—	—
Forfeited during the year	—	—	—	—
Exercisable at the end of the year	227,000	—	66,000	—
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, 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

	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

(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, 2008 and 2007.

a) Method used: Black-Scholes option pricing model

b) Major inputs and variables to the model

	13th		14th		15th		16th	
Exercise period	From June 1, 2008 to June 23, 2015	From June 1, 2009 to June 23, 2015	From June 1, 2008 to June 23, 2015	From June 1, 2009 to June 23, 2015	From June 1, 2009 to June 23, 2015	From June 1, 2011 to June 23, 2015	From June 1, 2009 to June 23, 2015	From June 1, 2011 to June 23, 2015
Expected volatility (Note 1)	26.30%	26.30%	26.30%	26.30%	26.30%	26.30%	26.30%	26.30%
Expected life (Note 2)	5 Years 7 Months	6 Years 1 Month	5 Years 7 Months	6 Years 1 Month	6 Years 1 Month	7 Years 1 Month	6 Years 1 Month	7 Years 1 Month
Expected dividends (Note 3)	¥2.96/Share	¥2.96/Share	¥2.96/Share	¥2.96/Share	¥2.96/Share	¥2.96/Share	¥2.96/Share	¥2.96/Share
Risk-free interest rate (Note 4)	1.46%	1.53%	1.46%	1.53%	1.53%	1.65%	1.53%	1.65%

	17th		18th		19th	
Exercise period	From June 1, 2009 to May 8, 2017	From June 1, 2011 to May 8, 2017	From June 1, 2009 to May 8, 2017	From June 1, 2011 to May 8, 2017	From July 1, 2009 to June 19, 2017	From July 1, 2011 to June 19, 2017
Expected volatility (Note 1)	26.40%	26.40%	26.40%	26.40%	25.90%	25.90%
Expected life (Note 2)	6 Years	7 Years	6 Years	7 Years	6 Years	7 Years
Expected dividends (Note 3)	¥2.66/Share	¥2.66/Share	¥2.66/Share	¥2.66/Share	¥2.66/Share	¥2.66/Share
Risk-free interest rate (Note 4)	1.42%	1.50%	1.42%	1.50%	1.59%	1.67%

Notes: (1) Measurement based on the historical stock price of the past 2 years (from May 2005 to May 2007 for the 17th and 18th, from July 2005 to July 2007 for the 19th)
(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 2007.
(4) Used the yield of JGB 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.

(e) On May 30, 2008, the Bank granted a total of 4,911 stock acquisition rights with an exercise price of ¥416, whose exercise period is from June 1, 2010 to May 13, 2018.

At the Board of Directors' meeting held on May 14, 2008, the Bank resolved to submit a proposal at the annual general meeting of shareholders to be held on June 25, 2008, for the granting of up to a total of 12,000 stock acquisition rights. The exercise period for the stock acquisition rights is to be from the date which is 2 years after the allocation date to May 13, 2018.

27. NET TRADING INCOME

CONSOLIDATED

Net trading income for the fiscal years ended March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Income (loss) from trading securities	**¥ (608)**	¥ 1,513	**$ (6,106)**
Income from securities held to hedge trading transactions	**348**	6,356	**3,491**
Income from trading-related financial derivatives	**9,371**	10,259	**93,969**
Other, net	**(20)**	(319)	**(202)**
Total	**¥ 9,090**	¥ 17,809	**$ 91,152**

28. OTHER BUSINESS INCOME (LOSS), NET

CONSOLIDATED

"Other, net" in other business income, net, for the fiscal years ended March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Incomes (losses) from derivatives for banking purposes, net	**¥ 534**	¥ (6,769)	**$ 5,357**
Equity in net income (loss) of affiliates	**(8,350)**	(12,779)	**(83,728)**
Gain on lease cancellation and other lease income, net	**2,797**	2,379	**28,049**
Other, net	**(798)**	2,397	**(8,005)**
Total	**¥ (5,816)**	¥ (14,772)	**$ (58,327)**

29. NET CREDIT COSTS

CONSOLIDATED

Net credit costs for the fiscal years ended March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Losses on write-off of loans	**¥ 3,183**	¥ 1,593	**$ 31,920**
Net provision (reversal) of reserve for loan losses:			
Net provision (reversal) of general reserve for loan losses	**22,851**	33,597	**229,130**
Net provision (reversal) of specific reserve for loan losses	**50,476**	15,639	**506,136**
Net provision (reversal) of reserve for loan losses to restructuring countries	**6**	3	**62**
Subtotal	**73,334**	49,240	**735,328**
Net provision (reversal) of specific reserve for other credit losses	**(6,367)**	(813)	**(63,850)**
Other credit costs relating to leasing business	**3,441**	1,913	**34,506**
Total	**¥ 73,591**	¥ 51,934	**$ 737,904**

30. OTHER GAINS (LOSSES), NET

CONSOLIDATED

Other gains (losses), net, for the fiscal years ended March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Net gain (loss) on disposal of premises and equipment	**¥ 66,161**	¥ 1,439	**$ 663,409**
Provision for loss on disposition of premises and equipment	**(5,025)**	—	**(50,392)**
Pension-related costs	**(1,811)**	(1,362)	**(18,167)**
Gain on prescription of debentures	**611**	348	**6,130**
Recoveries of written-off claims	**1,057**	294	**10,603**
Gain on sale of subsidiary's stock	**20,368**	11,651	**204,236**
Provision of reserve for losses on interest repayments	**(3,732)**	(8,535)	**(37,421)**
Impairment loss on goodwill and other intangible assets	**—**	(95,146)	**—**
Extraordinary retirement expenses	**—**	(4,629)	**—**
Other, net	**(2,878)**	(3,176)	**(28,865)**
Total	**¥ 74,750**	¥ (99,117)	**$ 749,533**

31. LEASE TRANSACTIONS

CONSOLIDATED

(a) Finance lease transactions, under which the ownership of the property is not deemed to transfer to the lessee as of March 31, 2008 and 2007 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 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
Leased assets	**2008**	2007	**2008**
Acquisition cost:			
Equipment	**¥ 3,638**	¥ 2,992	**$ 36,480**
Other	**373**	235	**3,741**
Total	**¥ 4,011**	¥ 3,227	**$ 40,221**
Accumulated depreciation:			
Equipment	**¥ 2,451**	¥ 1,718	**$ 24,579**
Other	**187**	146	**1,880**
Total	**¥ 2,638**	¥ 1,864	**$ 26,459**
Net balance:			
Equipment	**¥ 1,186**	¥ 1,274	**$ 11,901**
Other	**185**	88	**1,861**
Total	**¥ 1,372**	¥ 1,362	**$ 13,762**

Lease obligations as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Obligations:			
Due within one year	**¥ 859**	¥ 785	**$ 8,616**
Due after one year	**582**	647	**5,842**
Total	**¥ 1,441**	¥ 1,432	**$ 14,458**

For the fiscal years ended March 31, 2008 and 2007, total lease payments were ¥1,301 million (U.S.$13,051 thousand) and ¥909 million, assumed depreciation expenses were ¥1,203 million (U.S.$12,064 thousand) and ¥839 million, and assumed interest expenses were ¥47 million (U.S.$475 thousand) and ¥58 million, respectively.

Assumed depreciation expense is calculated using the straight-line method over the 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 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
Leased assets	**2008**	2007	**2008**
Acquisition cost:			
Equipment	**¥ 446,978**	¥ 437,458	**$ 4,481,889**
Other	**82,901**	78,470	**831,259**
Total	**¥ 529,880**	¥ 515,928	**$ 5,313,148**
Accumulated depreciation:			
Equipment	**¥ 201,547**	¥ 166,331	**$ 2,020,932**
Other	**37,233**	30,198	**373,345**
Total	**¥ 238,781**	¥ 196,529	**$ 2,394,277**
Net balance:			
Equipment	**¥ 245,431**	¥ 271,126	**$ 2,460,957**
Other	**45,667**	48,272	**457,914**
Total	**¥ 291,099**	¥ 319,398	**$ 2,918,871**

31. LEASE TRANSACTIONS (CONTINUED) CONSOLIDATED

Future lease payment receivables as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Future lease payment receivables:			
Due within one year	¥ 103,579	¥ 109,918	$ 1,038,597
Due after one year	196,682	224,660	1,972,148
Total	¥ 300,261	¥ 334,579	$ 3,010,745

For the fiscal years ended March 31, 2008 and 2007, total lease revenues were ¥131,336 million (U.S.$1,316,923 thousand) and ¥132,182 million, depreciation expenses were ¥103,103 million (U.S.$1,033,828 thousand) and ¥117,389 million, and assumed interest income was ¥14,791 million (U.S.$148,317 thousand) and ¥14,613 million, respectively.

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, 2008 and 2007 consisted of the following:

AS LESSEE

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Obligations:			
Due within one year	¥ 4,025	¥ 1,429	$ 40,368
Due after one year	5,530	4,270	55,453
Total	¥ 9,556	¥ 5,699	$ 95,821

AS LESSOR

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Future lease payment receivables:			
Due within one year	¥ 8,926	¥ 7,810	$ 89,505
Due after one year	9,888	7,704	99,148
Total	¥ 18,814	¥ 15,514	$ 188,653

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, 2008 and 2007.

A reconciliation of the actual effective tax rate with the normal effective statutory tax rate for the fiscal years ended March 31, 2008 and 2007 was as follows:

	2008	2007
Normal effective statutory tax rate	40.7%	(40.7)%
Increase (decrease) in taxes resulting from:		
Permanently tax-exempt income	(3.5)	0.0
Amortization of goodwill	4.1	41.9
Minority interests in net income of subsidiaries	5.1	7.9
Other non-deductible expenses	0.7	0.7
Change in valuation allowance	(36.2)	(46.1)
Other	4.7	3.8
Actual effective tax rate	15.6%	(32.5)%

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities, as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Tax loss carryforwards	¥ 132,237	¥ 160,913	$ 1,325,954
Reserve for credit losses	108,249	83,963	1,085,421
Reserve for losses on interest repayments	16,004	4,212	160,482
Net unrealized loss on securities available-for-sale	14,271	—	143,100
Securities	9,060	19,767	90,850
Deferred loss on derivatives under hedge accounting	6,170	5,181	61,868
Accrued employees' bonuses	5,929	5,172	59,454
Losses on impairment of premises and equipment	5,186	5,303	52,004
Reserve for retirement benefits	2,997	8,470	30,059
Deferred income on installment receivables	2,043	3,616	20,486
Other	30,687	40,318	307,710
Subtotal	332,837	336,915	3,337,388
Valuation allowance	(288,324)	(284,678)	(2,891,052)
Total deferred tax assets	44,513	52,236	446,336
Offset with deferred tax liabilities	(16,274)	(9,762)	(163,190)
Net deferred tax assets	¥ 28,238	¥ 42,474	$ 283,146
Deferred tax liabilities:			
Temporary differences due to application of overall fair value adjustments (mainly related to identified intangible assets)	¥ 9,871	¥ 8,692	$ 98,984
Net unrealized gain on securities available-for-sale	—	3,406	—
Deferred gain on derivatives under hedge accounting	9,428	1,670	94,544
Other	1,257	1,069	12,611
Total deferred tax liabilities	20,558	14,837	206,139
Offset with deferred tax assets	(16,274)	(9,762)	(163,190)
Net deferred tax liabilities	¥ 4,283	¥ 5,075	$ 42,949

The Bank had ¥42,318 million (U.S.$424,329 thousand) of tax loss carryforwards related to corporation tax as of March 31, 2008. The schedule of tax loss carryforwards and their expiration dates is as follows:

	Amount		
Fiscal year ended March 31	Millions of yen	Thousands of U.S. dollars	Date of expiry
2003	¥ 42,318	$ 424,329	March 31, 2010

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	¥ 157,722	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	10,449	March 31, 2015
	Total	¥ 205,958	
Showa Leasing Co., Ltd.	March 31, 2005	¥ 26,941	March 31, 2012
	March 31, 2007	10,018	March 31, 2014
	March 31, 2008	434	March 31, 2015
	Total	¥ 37,395	
Shinki Co., Ltd.	March 31, 2007	¥ 316	March 31, 2014
	March 31, 2008	20,044	March 31, 2015
	Total	¥ 20,360	

The Bank cannot include the tax loss carryforwards of APLUS, Showa Leasing and Shinki to 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 ¥4,436,578 million (U.S.$44,485,894 thousand) and ¥4,456,538 million as of March 31, 2008 and 2007, out of which the amounts with original agreement terms of less than one year or which were cancelable were ¥4,064,768 million (U.S.$40,757,735 thousand) and ¥4,118,334 million as of March 31, 2008 and 2007, 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

Related party transactions for the fiscal years ended March 31, 2008 and 2007 were as follows:

			Amounts of the transactions			Balance at end of year		
			Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars
Related party	Category	Description of the transactions	2008	2007	2008	2008	2007	2008
Hillcot Re Limited(*1)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Guarantee(*8)	¥ —	¥ —	$ —	¥397	¥462	$3,981
NIBC Bank Ltd(*2)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Loan participation(*9)	456	139	4,572	570	139	5,715
NIBC Bank N.V.(*3)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Commitment line(*10)	15,742	14,366	157,846	—	—	—
J.C. Flowers II L.P.(*4)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Receipt of management fee(*11)	215	288	2,156	43	51	431
		Investment(*12)	4,172	4,423	41,833	—	—	—
		Dividend	1,686	—	16,906	—	—	—
Brampton Insurance Company Limited(*5)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Redemption of investment(*13)	—	2,472	—	—	—	—
		Redemption of investment(*14)	—	1,310	—	—	—	—
Saturn I Sub (Cayman) Exempt Ltd.(*6)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Third-Party Allotment(*15)	2,148	—	21,538	—	—	—
Saturn Japan II Sub C.V.(*7)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Third-Party Allotment(*15)	2,334	—	23,403	—	—	—
Saturn Japan III Sub C.V.(*7)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Third-Party Allotment(*15)	11,599	—	116,304	—	—	—
Saturn IV Sub LP(*7)	Companies in which a majority of the voting rights are owned by directors (including their subsidiaries)	Third-Party Allotment(*15)	33,917	—	340,088	—	—	—

Notes: (*1) The company is a wholly-owned subsidiary of Hillcot Holdings Limited which is the affiliate of the Bank accounted for by the equity method.
(*2) 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.
(*3) 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.
(*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 company is a wholly owned subsidiary of Hillcot Holdings Limited, of which a director of the Bank, J. Christopher Flowers, indirectly owns majority of voting rights, and is the affiliate of the Bank accounted for by the equity method. The former name was Aioi Insurance Company of Europe Limited.
(*6) The investment vehicle represented by J. Christopher Flowers, a director of the Bank.
(*7) The investment vehicle, of which a board member of the general partner is J. Christopher Flowers, a director of the Bank.
(*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. The remaining period of the guarantee is 2 years.
(*9) 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.
(*10) 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.
(*11) The management fee is determined based on proportion of investment amounts by limited liability partner.
(*12) The committed investment amounts are U.S.$200 million based on the limited partnership agreement.
(*13) A part of refinance money for the purpose of merger and acquisition at Hillcot Holdings Limited was used for partial redemption of investment.
(*14) A part of investment was redeemed resulting from cancellation of treasury stocks utilizing surplus.
(*15) 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

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, 2008 and 2007 were adjusted for credit risk by a reduction of ¥1,590 million (U.S.$15,950 thousand) and ¥1,270 million, respectively, and also adjusted for liquidity risk by a reduction of ¥3,856 million (U.S.$38,668 thousand) and ¥5,717 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, 2008 and 2007 were as follows:

	Millions of yen							
	2008				2007			
	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	**¥ 21,230**	**¥ —**	**¥ (2)**	**¥ (2)**	¥ 66,572	¥ 673	¥ 2	¥ 2
Bought	**20,159**	**—**	**54**	**54**	48,334	—	14	14
Interest rate options (listed):								
Sold	**—**	**—**	**—**	**—**	—	—	—	—
Bought	**—**	**—**	**—**	**—**	—	—	—	—
Interest rate swaps (over-the-counter):								
Receive fixed and pay floating	**5,856,476**	**5,221,639**	**100,670**	**100,670**	5,454,666	4,857,923	(10,310)	(10,310)
Receive floating and pay fixed	**4,316,438**	**3,498,017**	**(62,627)**	**(62,627)**	4,085,929	3,086,394	(789)	(789)
Receive floating and pay floating	**554,314**	**497,389**	**1,523**	**1,523**	496,769	278,105	2,785	2,785
Receive fixed and pay fixed	**—**	**—**	**—**	**—**	—	—	—	—
Interest rate swaptions (over-the-counter):								
Sold	**2,300,955**	**2,086,391**	**(23,860)**	**644**	2,024,726	1,935,214	(18,169)	4,628
Bought	**2,680,731**	**2,479,847**	**(3,401)**	**(16,261)**	2,692,636	2,478,374	38,764	28,651
Interest rate options (over-the-counter):								
Sold	**118,604**	**101,500**	**(292)**	**1,762**	210,364	181,413	(261)	2,528
Bought	**144,731**	**104,826**	**129**	**(1,305)**	249,709	152,321	221	(1,230)
Total			**¥ 12,191**	**¥ 24,458**			¥ 12,257	¥ 26,280

	Thousands of U.S. dollars			
	2008			
	Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Future contracts (listed):				
Sold	**$ 212,878**	**$ —**	**$ (29)**	**$ (29)**
Bought	**202,142**	**—**	**544**	**544**
Interest rate options (listed):				
Sold	**—**	**—**	**—**	**—**
Bought	**—**	**—**	**—**	**—**
Interest rate swaps (over-the-counter):				
Receive fixed and pay floating	**58,723,321**	**52,357,763**	**1,009,426**	**1,009,426**
Receive floating and pay fixed	**43,281,247**	**35,074,875**	**(627,970)**	**(627,970)**
Receive floating and pay floating	**5,558,149**	**4,987,358**	**15,278**	**15,278**
Receive fixed and pay fixed	**—**	**—**	**—**	**—**
Interest rate swaptions (over-the-counter):				
Sold	**23,071,850**	**20,920,395**	**(239,253)**	**6,463**
Bought	**26,879,891**	**24,865,616**	**(34,112)**	**(163,056)**
Interest rate options (over-the-counter):				
Sold	**1,189,256**	**1,017,753**	**(2,937)**	**17,677**
Bought	**1,451,237**	**1,051,102**	**1,295**	**(13,089)**
Total			**$ 122,242**	**$ 245,244**

(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 above.

(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, 2008 and 2007 were as follows:

	Millions of yen							
	2008				2007			
	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)	¥ 1,396,215	¥ 1,080,349	¥ 48	¥ 48	¥ 1,162,620	¥ 990,613	¥ 22,633	¥ 22,633
Forward foreign exchange contracts (over-the-counter):								
Sold	1,943,511	487,086	69,279	69,279	1,064,019	234,304	(16,593)	(16,593)
Bought	1,144,628	571,340	(58,823)	(58,823)	622,873	333,651	22,283	22,283
Currency options (over-the-counter):								
Sold	7,512,269	2,843,495	(224,691)	(68,213)	2,230,954	985,096	(51,526)	3,852
Bought	7,834,728	3,464,147	241,793	93,213	2,564,734	1,157,296	49,334	4,945
Total			¥ 27,606	¥ 35,505			¥ 26,130	¥ 37,121

	Thousands of U.S. dollars			
	2008			
	Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Currency swaps (over-the-counter)	$ 13,999,952	$ 10,832,745	$ 488	$ 488
Forward foreign exchange contracts (over-the-counter):				
Sold	19,487,734	4,884,053	694,673	694,673
Bought	11,477,273	5,728,869	(589,825)	(589,825)
Currency options (over-the-counter):				
Sold	75,326,072	28,511,935	(2,252,998)	(683,982)
Bought	78,559,400	34,735,256	2,424,476	934,663
Total			$ 276,814	$ 356,017

(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 above.

(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, 2008 and 2007 were as follows:

	Millions of yen							
	2008				2007			
	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	¥ 20,238	¥ —	¥ (893)	¥ (893)	¥ 1,924	¥ —	¥ (31)	¥ (31)
Bought	—	—	—	—	65,740	—	444	444
Equity index options (listed):								
Sold	—	—	—	—	—	—	—	—
Bought	52	—	34	(17)	3,353	—	43	26
Equity options (over-the-counter):								
Sold	281,014	69,306	(18,574)	(3,307)	230,724	42,848	(16,587)	(4,216)
Bought	245,675	68,872	19,660	1,571	108,836	25,052	11,930	4,548
Equity index swaps (over-the-counter):								
Receive index and pay floating	—	—	—	—	—	—	—	—
Receive floating and pay index	1,000	1,000	95	95	1,000	1,000	52	52
Other (over-the-counter):								
Sold	24,999	24,999	(4,587)	(4,587)	21,418	21,418	(728)	(728)
Bought	162,484	160,321	19,718	19,696	163,711	162,139	3,687	3,563
Total			¥ 15,453	¥ 12,557			¥ (1,190)	¥ 3,658

	Thousands of U.S. dollars			
	2008			
	Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Equity index futures (listed):				
Sold	$ 202,938	$ —	$ (8,959)	$ (8,959)
Bought	—	—	—	—
Equity index options (listed):				
Sold	—	—	—	—
Bought	524	—	347	(178)
Equity options (over-the-counter):				
Sold	2,817,752	694,940	(186,251)	(33,160)
Bought	2,463,404	690,586	197,137	15,762
Equity index swaps (over-the-counter):				
Receive index and pay floating	—	—	—	—
Receive floating and pay index	10,027	10,027	955	955
Other (over-the-counter):				
Sold	250,674	250,674	(45,999)	(45,999)
Bought	1,629,244	1,607,551	197,723	197,498
Total			$ 154,953	$ 125,919

(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 above.

(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, 2008 and 2007 were as follows:

	Millions of yen							
	2008				2007			
	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	**¥ 3,997**	**¥ —**	**¥ 3**	**¥ 3**	¥ 3,622	¥ —	¥ 0	¥ 0
Bought	**4,583**	**—**	**29**	**29**	8,422	—	(6)	(6)
Bond futures options (listed):								
Sold	**—**	**—**	**—**	**—**	—	—	—	—
Bought	**—**	**—**	**—**	**—**	13,400	—	57	3
Total			**¥ 32**	**¥ 32**			¥ 51	¥ (2)

	Thousands of U.S. dollars			
	2008			
	Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Bond futures (listed):				
Sold	**$ 40,083**	**$ —**	**$ 33**	**$ 33**
Bought	**45,959**	**—**	**291**	**291**
Bond futures options (listed):				
Sold	**—**	**—**	**—**	**—**
Bought	**—**	**—**	**—**	**—**
Total			**$ 324**	**$ 324**

(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 above.

(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.

(E) CREDIT DERIVATIVES TRANSACTIONS

Credit derivatives transactions as of March 31, 2008 and 2007 were as follows:

	Millions of yen							
	2008				2007			
	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	**¥ 1,554,106**	**¥ 1,479,096**	**¥ (33,142)**	**¥ (49,042)**	¥ 1,026,477	¥ 997,004	¥ 21,457	¥ 3,239
Bought	**1,516,835**	**1,365,653**	**57,261**	**57,261**	1,075,426	1,047,060	(4,351)	(4,351)
Total			**¥ 24,119**	**¥ 8,219**			¥ 17,106	¥ (1,112)

	Thousands of U.S. dollars			
	2008			
	Contract/Notional principal			
	Total	Maturity over one year	Fair value	Unrealized gain (loss)
Credit default option (over-the-counter):				
Sold	**$ 15,583,135**	**$ 14,831,009**	**$ (332,318)**	**$ (491,752)**
Bought	**15,209,422**	**13,693,505**	**574,167**	**574,167**
Total			**$ 241,849**	**$ 82,415**

36. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

CONSOLIDATED

(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 above.

(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

A reconciliation of the differences between basic and diluted net income per common share ("EPS") for the fiscal year ended March 31, 2008 is as follows:

	Net income (Millions of yen)	Weighted average shares (Thousands)	EPS (Yen)	EPS (U.S. dollars)
For the fiscal year ended March 31, 2008:				
Basic EPS				
Net income available to common shareholders	**¥ 59,624**	**1,529,530**	**¥ 38.98**	**$ 0.39**
Effect of dilutive securities				
Preferred stock	**484**	**322,815**		
Diluted EPS				
Net income for computation	**¥ 60,108**	**1,852,346**	**¥ 32.44**	**$ 0.33**

Diluted net income per share for the fiscal year ended March 31, 2007 was not disclosed because of the Group's net loss position.

38. SUBSEQUENT EVENTS

CONSOLIDATED

(A) SALE OF PROPERTY OWNED BY A SUBSIDIARY

On May 14, 2008 the Bank agreed to sell its Meguro Production Center together with the land for ¥19,200 million ($192,520 thousand). The Bank has entered into a lease contract with the purchaser, an affiliate of the Lone Star Real Estate Fund, which will allow it to remain in the building until March 2011.

This sale, which closed on May 30, 2008, allows the Bank to carry out its intention to relocate the Production center as a part of the Bank's ongoing effort to realign its operations and improve efficiency.

A gain on disposal of premises and equipment of approximately ¥10,200 million (U.S.$102,276 thousand) will be recognized in the fiscal year ending March 31, 2009. In addition, restoration and other costs associated with the future relocation will be estimated and recognized.

(B) DIVIDENDS

The following appropriation of retained earnings of the Bank for the fiscal year ended March 31, 2008 was approved at the Board of Directors meeting held on May 14, 2008:

	Millions of yen	Thousands of U.S. dollars
Common share (¥2.94 per share)	**¥ 5,773**	**$ 57,895**

(C) SHARES

At the Board of Directors' meeting held on May 14, 2008, the Bank resolved to submit a proposal at the annual general meeting of shareholders to be held on June 25, 2008, to amend the Articles of Incorporation to increase the aggregate number of common shares which the Bank shall have the authority to issue to 4,000,000 thousand shares.

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, 2008 and 2007, 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 Japan and 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, 2008 and 2007, 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 20, 2008

Member of
Deloitte Touche Tohmatsu

NON-CONSOLIDATED BALANCE SHEETS (UNAUDITED)

Shinsei Bank, Limited
As of March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note)
	2008	2007	**2008**
ASSETS			
Cash and due from banks	**¥ 272,940**	¥ 190,003	**$ 2,736,796**
Call loans	**—**	43,100	**—**
Receivables under resale agreements	**2,014**	—	**20,200**
Collateral related to securities borrowing transactions	**13,850**	11,050	**138,877**
Other monetary claims purchased	**161,344**	69,856	**1,617,812**
Trading assets	**275,136**	284,137	**2,758,814**
Monetary assets held in trust	**606,018**	687,346	**6,076,593**
Securities	**2,300,303**	2,062,064	**23,065,309**
Valuation allowance for investments	**(3,370)**	(15,908)	**(33,798)**
Loans and bills discounted	**5,356,363**	5,075,281	**53,708,647**
Foreign exchanges	**17,852**	15,047	**179,010**
Other assets	**577,856**	325,654	**5,794,214**
Premises and equipment	**20,895**	20,768	**209,516**
Intangible assets	**14,560**	13,475	**146,000**
Deferred discounts on and issuance expenses for debentures	**125**	103	**1,259**
Deferred tax assets	**14,697**	35,559	**147,373**
Customers' liabilities for acceptances and guarantees	**11,746**	18,357	**117,784**
Reserve for credit losses	**(93,662)**	(106,977)	**(939,161)**
Total assets	**¥ 9,548,673**	¥ 8,728,921	**$ 95,745,245**
LIABILITIES AND EQUITY			
Liabilities:			
Deposits, including negotiable certificates of deposit	**¥ 5,865,130**	¥ 5,471,462	**$ 58,810,095**
Debentures	**663,134**	703,908	**6,649,298**
Call money	**632,117**	692,792	**6,338,284**
Collateral related to securities lending transactions	**148,421**	8,333	**1,488,232**
Trading liabilities	**203,716**	87,361	**2,042,682**
Borrowed money	**304,078**	276,760	**3,049,019**
Foreign exchanges	**269**	397	**2,706**
Corporate bonds	**519,902**	562,457	**5,213,100**
Other liabilities	**450,643**	237,614	**4,518,631**
Accrued employees' bonuses	**10,341**	9,850	**103,694**
Reserve for retirement benefits	**1,554**	756	**15,583**
Reserve for loss on disposition of premises and equipment	**4,913**	—	**49,269**
Acceptances and guarantees	**11,746**	18,357	**117,784**
Total liabilities	**8,815,970**	8,070,054	**88,398,377**
Equity:			
Capital stock:			
Common stock	**476,296**	291,853	**4,775,864**
Preferred stock	**—**	159,443	**—**
Capital surplus	**43,558**	18,558	**436,763**
Stock acquisition rights	**1,257**	517	**12,612**
Retained earnings:			
Legal reserve	**9,880**	9,266	**99,077**
Unappropriated retained earnings	**307,395**	257,878	**3,082,277**
Unrealized gain (loss) on available-for-sale securities	**(35,024)**	4,181	**(351,196)**
Deferred gain (loss) on derivatives under hedge accounting	**1,896**	(10,275)	**19,013**
Treasury stock, at cost	**(72,557)**	(72,555)	**(727,542)**
Total equity	**732,703**	658,866	**7,346,868**
Total liabilities and equity	**¥ 9,548,673**	¥ 8,728,921	**$ 95,745,245**

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥99.73=U.S.$1.00, the rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 31, 2008.

NON-CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

Shinsei Bank, Limited
For the fiscal years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note)
	2008	2007	**2008**
Interest income:			
Interest on loans and bills	**¥ 111,601**	¥ 75,567	**$ 1,119,040**
Interest and dividends on securities	**76,969**	40,427	**771,777**
Interest on deposits with banks	**4,695**	3,668	**47,085**
Other interest income	**6,536**	9,382	**65,542**
Total interest income	**199,803**	129,046	**2,003,444**
Interest expenses:			
Interest on deposits, including negotiable certificates of deposit	**48,019**	34,453	**481,491**
Interest and discounts on debentures	**3,398**	3,009	**34,074**
Interest on other borrowings	**18,718**	7,790	**187,692**
Interest on corporate bonds	**24,564**	20,776	**246,309**
Other interest expenses	**6,293**	11,503	**63,103**
Total interest expenses	**100,993**	77,534	**1,012,669**
Net interest income	**98,809**	51,512	**990,775**
Fees and commissions income	**27,459**	28,198	**275,334**
Fees and commissions expenses	**15,960**	13,164	**160,039**
Net fees and commissions	**11,498**	15,033	**115,295**
Net trading income	**6,990**	14,903	**70,095**
Other business income, net:			
Income on monetary assets held in trust, net	**37,339**	30,767	**374,405**
Net gain (loss) on foreign exchanges	**(727)**	9,171	**(7,295)**
Net gain (loss) on securities	**(13,822)**	13,274	**(138,603)**
Net gain on other monetary claims purchased	**223**	575	**2,238**
Other, net	**956**	(7,152)	**9,595**
Net other business income	**23,969**	46,636	**240,340**
Total revenue	**141,268**	128,085	**1,416,505**
General and administrative expenses:			
Personnel expenses	**34,023**	30,644	**341,154**
Premises expenses	**11,708**	11,281	**117,401**
Technology and data processing expenses	**10,669**	10,006	**106,986**
Advertising expenses	**3,120**	3,130	**31,289**
Consumption and property taxes	**4,274**	3,594	**42,866**
Deposit insurance premium	**3,431**	2,835	**34,408**
Other general and administrative expenses	**18,452**	16,373	**185,027**
Total general and administrative expenses	**85,681**	77,865	**859,131**
Net business profit	**55,586**	50,220	**557,374**
Net credit costs (recoveries)	**20,552**	(199)	**206,080**
Other gains (losses), net	**23,282**	(105,434)	**233,456**
Income (loss) before income taxes	**58,317**	(55,015)	**584,750**
Income taxes (benefit):			
Current	**(7,666)**	(2,779)	**(76,876)**
Deferred	**12,780**	(10,276)	**128,146**
Net income (loss)	**¥ 53,203**	¥ (41,960)	**$ 533,480**

	Yen		U.S. dollars (Note)
Basic net income per common share	**¥ 34.46**	¥ (32.14)	**$ 0.35**
Diluted net income per common share	**28.72**		**0.29**

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥99.73=U.S.$1.00, the rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 31, 2008.

NON-CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

Shinsei Bank, Limited
For the fiscal years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note)
	2008	2007	**2008**
Common stock:			
Balance at beginning of year	**¥ 291,853**	¥ 180,853	**$ 2,926,439**
Issuance of new shares of common stock	**25,000**	—	**250,677**
Conversion from preferred stock	**159,443**	111,000	**1,598,748**
Balance at end of year	**476,296**	291,853	**4,775,864**
Preferred stock:			
Balance at beginning of year	**159,443**	270,443	**1,598,748**
Conversion into common stock	**(159,443)**	(111,000)	**(1,598,748)**
Balance at end of year	**—**	159,443	**—**
Capital surplus:			
Balance at beginning of year	**18,558**	18,558	**186,086**
Issuance of new shares of common stock	**25,000**	—	**250,677**
Balance at end of year	**43,558**	18,558	**436,763**
Stock acquisition rights:			
Balance at beginning of year	**517**		**5,188**
Net change during the year	**740**	517	**7,424**
Balance at end of year	**1,257**	517	**12,612**
Retained earnings:			
Legal reserve:			
Balance at beginning of year	**9,266**	7,777	**92,916**
Transfer from unappropriated retained earnings	**614**	1,489	**6,161**
Balance at end of year	**9,880**	9,266	**99,077**
Unappropriated retained earnings:			
Balance at beginning of year	**257,878**	372,749	**2,585,761**
Appropriation:			
Transfer to legal reserve	**(614)**	(1,489)	**(6,161)**
Dividends paid	**(3,072)**	(7,443)	**(30,803)**
Net income (loss)	**53,203**	(41,960)	**533,480**
Disposal of treasury stock	**—**	(15)	**—**
Retirement of treasury stock	**—**	(63,963)	**—**
Balance at end of year	**307,395**	257,878	**3,082,277**
Unrealized gain (loss) on available-for-sale securities:			
Balance at beginning of year	**4,181**	2,670	**41,927**
Net change during the year	**(39,206)**	1,510	**(393,123)**
Balance at end of year	**(35,024)**	4,181	**(351,196)**
Deferred gain (loss) on derivatives under hedge accounting:			
Balance at beginning of year	**(10,275)**		**(103,037)**
Net change during the year	**12,172**	(10,275)	**122,050**
Balance at end of year	**1,896**	(10,275)	**19,013**
Treasury stock, at cost:			
Balance at beginning of year	**(72,555)**	(6)	**(727,523)**
Purchase of treasury stock	**(1)**	(136,673)	**(19)**
Disposal of treasury stock	**—**	160	**—**
Retirement of treasury stock	**—**	63,963	**—**
Balance at end of year	**(72,557)**	(72,555)	**(727,542)**
Total equity	**¥ 732,703**	¥ 658,866	**$ 7,346,868**

Note: U.S. dollar amounts, presented solely for the readers' convenience, are translated at ¥99.73=U.S.$1.00, the rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 31, 2008.

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 to support its current activities. The Bank is organized to take action through active credit portfolio management to further optimize capital usage.

- 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 two 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, 2008, there were 104 consolidated subsidiaries and 100 unconsolidated subsidiaries. Seventy seven 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 financing)

3. TYPES OF CAPITAL INSTRUMENTS

The Bank has issued common shares, preferred 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 96 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

An essential characteristic of an effective process for managing credit risk of specific transactions is the development of an evaluation and monitoring system that covers the entire lifecycle of a transaction. This includes identification of a transaction opportunity, approval for granting credit, monitoring after disbursement, action in the event of deterioration, and repayment or termination of the obligation.

Once a corporate loan transaction opportunity has been identified, the approval process begins. Based on the size and nature of the transaction, the Bank's rules stipulate whether approval will be given by the Risk Management Group, the Credit Committee (CC), or the Risk Investment Committee (RIC). A joint-approval system is employed in these committees to enhance objectiveness and transparency of the approval processes. The Internal Audit Division regularly evaluates these credit-related operations. In this way, the business promotion sections, the credit risk management sections, and the audit sections operate independently, ensuring that checks and balances are maintained throughout the Bank.

The RIC also makes decisions on investment transactions. The Bank makes use of the most appropriate and effective risk management approaches available, and has developed the skills and systems necessary to manage these investment transactions in accordance with the Bank's risk policies.

Structured products and other investments are handled in accordance with a process based on Product Programs. A Product Program is defined as a series of financial transactions that are intended to be accumulated as a portfolio based on criteria determined in advance, including purpose, standards, size limits on facilities to be used, expected return and risks, promotion strategy, management approach, method of assessing and monitoring risks, approval authority and exit strategy based on scenarios. The RIC approves all Product Programs.

(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. The final determination of a rating is made by the Credit Ratings Committee (CRC). This approach ensures transparency as the details of the process must be understood and approved by members of the CRC. 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, a 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 RIC 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 setchigaisha)*, 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 Representative Executive Officers, Chief Financial Officer (CFO) and Group Head of Risk Management undertake this role and responsibility.

(4) Daily Operational Executive Oversight

The Group Head of Risk Management undertakes this role and responsibility.

(5) Audit Section

At least once a year, 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.

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 one portfolio and three entities listed below. Currently, this portfolio 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 four 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 two years 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 three years from now.

(4) S.S. Solutions: a subsidiary consolidated to Shinsei in fiscal year 2007. Detailed roll-out plan to adopt IRB (retail) will be finalized based on its strategy for data maintenance/internal rating system design.

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.

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. Accordingly, reserves that are adequately marked to market are treated as normal claims *(seijo saiken)*. In the case that collateral coverage is below the mark-to-market exposure, reserves are determined according to the obligor's credit quality.

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 in general approved by the RIC, based on their risk-return profile as investments. For certain fund investments, the RIC has approved a Product Program approach by which the RIC delegates approval authority within the Program limit. For investments that do not meet the delegation criteria, RIC approval is required.

The risk management methodology for each investment is determined to reflect its type and investment purpose. Each risk is recognized and monitored appropriately using VaR, Net Asset Value method, or a specifically-created Risk Capital calculation logic. For securities that do not have fair market values, self assessments are conducted.

Risks held within each Product Program are reported monthly to senior management. In addition, a detailed explanation is provided to the RIC on a quarterly basis by the Risk Management Group.

7. SECURITIZATION EXPOSURE RISK MANAGEMENT POLICIES AND PROCEDURES

BANK RULES

The Bank is active in securitizations and manages securitization transactions as follows:

(1) Originator

For fundraising, mitigation of exposure concentration and balance sheet management purposes, the Bank securitizes loans and APLUS securitizes card credit receivables.

As an originator, the Bank manages the credit risk of its securitized transactions using the assumption that original debts are maintained on its books. Since the purpose of these transactions includes acquiring funds, mitigating exposure concentration and managing the Bank's balance sheet, securitization transactions are a tool to control liquidity risk.

(2) Investor

The Bank invests in securitization transactions which are backed by various financial products.

The Bank also re-securitizes some securitized products which the Bank has purchased and may hold the subordinated/residual portion.

As a general rule, the Bank manages the risks arising from securitization exposure, according to the types of products based on the Bank's Product Programs. In each Product Program, the transaction approval authority, size of the line to be used, methods for management, risk-checking monitoring and scenario-specific exit (loss limit) are defined.

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.

Based on the Product Programs, the status of using the program and of observing the established guidelines are verified on a monthly basis. Furthermore, transactions to be watched because of changes in environment/markets or for specific reasons are reported to the senior management, together with the program status. Monthly updates as well as comprehensive quarterly reports on the programs are provided and presented to the RIC by the Risk Management Group.

(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.

(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 bonds price, 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 Group Head of Risk Management, 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, 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 except foreign exchange related risks where a Variance-Covariance Method is used. 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 except FX-related risks • A Variance-Covariance Method for FX-related risks	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

(VaR data table) VaR amounts as calculated at the end of March 2008 together with the high, mean and low VaR in fiscal year 2007 (99% confidence interval, 10 day horizon period)

	Millions of yen	
	Consolidated	Non-consolidated
VaR at the end of year	4,206	3,980
VaR through this year		
High	5,131	4,392
Mean	2,688	2,352
Low	1,517	1,213

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 accomodate 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 2007 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 2007 show that the number of days in which Loss Amount exceeded VaR on a consolidated basis was zero.

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 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, 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 guideline 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 1.8 to 1.9 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 2008:

	Billions of yen	
	Consolidated	Non-consolidated
JPY	(35.5)	(16.9)
USD	1.2	1.2
Other	0.6	0.6
Total	(33.5)	(14.9)

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, and are professionally well-versed to manage 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 share information, identify challenges and promote measures for each risk category, as well as to implement effective operational risk management.

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, based on an internal model (loss distribution approach), 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 2007:

	Millions of yen	
	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)
The Standardized Approach	37,078	20,324

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 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 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 Quantifi-cation/ 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 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			

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 and external ratings. 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 Committee. PRMD is in charge of estimation and validation of parameters. Internal Audit Division (IAD) of the Bank audits all these processes.	Financial Engineering Risk Management Division (FERM) of the Bank is in charge of the design/management of the rating system. FERM 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, an internal committee. Ratings are revised at least once a year.	FERM 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 9AF

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 by 3/31/2012]	(g) Purchased Residential Mortgage Exposures (A portion is classified as Purchased Other Retail Exposures)	(h) Corporate Exposures, (i) Sovereign Exposures
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: 5 years)	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) and (b). **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	Retail Banking Risk Management Division (RBRM) 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). RBRM oversees pool assignment process. PRMD estimates/validates parameters. IAD audits all these processes.	FERM is in charge of rating system design and pool assignment. FERM 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. IAD of the Bank audits 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 purchased housing loan portfolios and the Bank's housing loan portfolio. **LGD** Validation if estimated LGDs remain within a certain confidence level, and comparison with the track record of loss rate in other purchased housing portfolios.	Same as (a) and (b).
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 RBRM: oversees and controls pool assignment process	FERM 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) 3 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. Loss data of exposures paid in subrogation by guarantors is not used for LGD estimation. **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) 3 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) and (b).

EXHIBIT

Type of Exposures			Showa Leasing (j) Other "Retail" Exposures	APLUS (k) 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 LTV and DTI.
Summary of Internal Rating System	Structure of Internal Rating System	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) LTV, ii) DTI, and iii) delinquency.
Summary of Internal Rating System	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.
Summary of Internal Rating System	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. IAD of the Bank audits 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. IAD of the Bank audits all these processes.
Summary of Internal Rating System	Management of Internal Rating System and Validation Procedures	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.
Summary of Rating Assignment Procedures for Each Portfolio	Estimation of Parameters		**Definition of Default** Any of the following: i) 3 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 September 2007.	**Definition of Default** Any of the following: i) 3 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 undrawn 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 September 2007 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 100 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 96 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
(EXCLUDING EQUITIES EXPOSURE AND REGARDED-METHOD EXPOSURE)

(1) Portfolios under the Standardized Approach (SA)

	Millions of yen			
	2008		2007	
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	**28,172**	**28,172**	15,363	15,363
Subsidiaries of APLUS	**6,617**	**—**	97,886	—
Subsidiaries of Showa Leasing	**6,665**	**—**	4,521	—
Shinki Group	**9,292**	**—**		
Other subsidiaries	**10,239**	**—**	12,613	—

(2) Portfolios under the Internal Ratings-Based Approach (IRB)

	Millions of yen			
	2008		2007	
As of March 31	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)
Corporate	**202,587**	**182,306**	190,428	181,358
Sovereign	**11,007**	**10,972**	7,272	7,262
Bank	**61,791**	**57,462**	54,054	54,245
Residential mortgages	**1,798**	**—**	3,334	—
Qualified revolving retail	**61,712**	**—**		
Other retails	**146,652**	**—**	10,227	—
Total	**485,549**	**250,741**	265,318	242,866
Securitization Exposure	**40,230**	**27,209**	17,880	16,982

AMOUNT OF REQUIRED CAPITAL FOR EQUITY EXPOSURE UNDER IRB

	Millions of yen			
	2008		2007	
As of March 31	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)
Market-Based Approach				
Simplified Method	**22,993**	**40,997**	19,499	23,508
PD/LGD Method	**7,411**	**66,815**	9,005	39,443
Total	**30,405**	**107,813**	28,504	62,951

AMOUNT OF REQUIRED CAPITAL FOR REGARDED-METHOD EXPOSURE UNDER IRB

	Millions of yen			
	2008		2007	
As of March 31	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)
Regarded-Method exposure	**76,290**	**70,294**	52,297	52,452

AMOUNT OF REQUIRED CAPITAL FOR MARKET RISK

	Millions of yen			
	2008		2007	
As of March 31	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)
The Standardized Approach (Specific Risk)	**12,469**	**13,818**	9,445	11,790
Interest rate risk	**11,192**	**10,411**	9,019	8,851
Equity position risk	**15**	**—**	210	—
FX risk	**1,261**	**3,406**	215	2,939
The Standardized Approach (General Market Risk)	**—**	**—**	341	—
The Internal Models Approach (IMA) (General Market Risk)	**7,641**	**6,344**	5,911	5,911

AMOUNT OF REQUIRED CAPITAL FOR OPERATIONAL RISK

	Millions of yen			
	2008		2007	
As of March 31	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)	Required capital amount (Consolidated)	Required capital amount (Non-consolidated)
The Standardized Approach	**37,078**	**20,324**	32,944	19,068

TOTAL CAPITAL ADEQUACY RATIO AND TIER I CAPITAL RATIO

	2008		2007	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Total capital adequacy ratio	**11.74%**	**15.25%**	13.13%	18.79%
Tier I capital ratio	**7.37%**	**10.71%**	8.11%	12.81%

TOTAL REQUIRED CAPITAL (DOMESTIC CRITERIA)

	Millions of yen			
	2008		2007	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Total required capital	**683,698**	**432,226**	633,519	361,377

4. CREDIT RISK EXPOSURE (EXCLUDING SECURITIZATION AND REGARDED EXPOSURE)

AMOUNT OF CREDIT RISK EXPOSURE

Geographic, Industries or Maturity (Consolidated)

Millions of yen

	2008				2007			
	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	**375,517**	**371,554**	**0**	**3,963**	391,226	389,016	201	2,008
Agriculture	**4,085**	**4,085**	**—**	**—**	1,426	1,426	—	—
Mining	**6,787**	**6,787**	**—**	**—**	8,800	8,800	—	—
Construction	**61,801**	**56,818**	**4,955**	**28**	57,619	52,778	4,772	69
Electric power, gas, water supply	**100,672**	**92,612**	**7,999**	**60**	110,261	110,148	36	76
Information and communication	**80,423**	**80,412**	**—**	**10**	38,816	38,216	—	600
Transportation	**312,856**	**282,138**	**8,638**	**22,078**	323,546	301,831	8,200	13,514
Wholesale and retail	**236,318**	**235,904**	**—**	**413**	213,784	213,019	50	714
Finance and insurance	**1,547,269**	**1,251,736**	**184,343**	**111,190**	1,378,891	1,104,822	154,310	119,757
Real estate	**1,617,412**	**1,365,300**	**248,576**	**3,534**	1,718,485	1,554,312	162,711	1,461
Services	**724,162**	**620,395**	**90,621**	**13,145**	678,207	590,730	82,951	4,526
Government	**754,894**	**104,561**	**648,167**	**2,166**	860,990	54,407	804,175	2,406
Individuals	**2,473,429**	**2,471,705**	**—**	**1,724**	2,333,663	2,333,663	—	—
Others	**14,206**	**14,204**	**—**	**2**	48,936	48,936	—	—
Domestic Total	**8,309,838**	**6,958,218**	**1,193,301**	**158,318**	8,164,658	6,802,110	1,217,411	145,135
Foreign	**1,739,467**	**462,536**	**306,127**	**970,803**	1,226,246	531,681	240,296	454,268
Consolidated Total	**10,049,306**	**7,420,754**	**1,499,428**	**1,129,122**	9,390,904	7,333,792	1,457,708	599,403
To one year	**2,571,815**	**1,832,592**	**464,436**	**274,785**	2,670,089	1,964,821	514,546	190,721
One to three years	**3,323,753**	**2,381,884**	**512,659**	**429,210**	2,827,687	2,295,444	412,822	119,421
Three to five years	**1,897,434**	**1,324,355**	**320,658**	**252,421**	1,762,843	1,318,043	281,902	162,897
Over five years	**2,032,359**	**1,659,599**	**200,054**	**172,705**	1,934,132	1,611,825	195,942	126,364
Undated	**223,944**	**222,323**	**1,620**	**—**	196,151	141,656	52,494	—
Consolidated Total	**10,049,306**	**7,420,754**	**1,499,428**	**1,129,122**	9,390,904	7,333,792	1,457,708	599,403

Geographic, Industries or Maturity (Non-consolidated)

Millions of yen

	2008				2007			
	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	**260,245**	**256,282**	**0**	**3,963**	275,969	273,758	201	2,008
Agriculture	**2,900**	**2,900**	**—**	**—**	900	900	—	—
Mining	**5,850**	**5,850**	**—**	**—**	8,116	8,116	—	—
Construction	**36,080**	**31,133**	**4,918**	**28**	39,520	34,678	4,772	69
Electric power, gas, water supply	**99,723**	**91,664**	**7,999**	**60**	109,363	109,249	36	76
Information and communication	**53,349**	**53,338**	**—**	**10**	32,268	31,668	—	600
Transportation	**291,213**	**260,519**	**8,615**	**22,078**	303,926	282,212	8,200	13,514
Wholesale and retail	**137,857**	**137,443**	**—**	**413**	123,143	122,377	50	714
Finance and insurance	**1,706,273**	**1,405,477**	**184,343**	**116,452**	1,516,344	1,240,889	154,315	121,138
Real estate	**1,561,771**	**1,309,659**	**248,576**	**3,534**	1,737,065	1,572,892	162,711	1,461
Services	**533,937**	**430,148**	**90,473**	**13,315**	490,049	402,314	82,999	4,735
Government	**747,275**	**96,976**	**648,132**	**2,166**	852,613	49,161	801,045	2,406
Individuals	**844,739**	**843,014**	**—**	**1,724**	589,335	589,335	—	—
Others	**2**	**—**	**—**	**2**	184	184	—	—
Domestic Total	**6,281,219**	**4,924,408**	**1,193,058**	**163,752**	6,078,801	4,717,741	1,214,334	146,725
Foreign	**1,757,736**	**466,570**	**318,545**	**972,620**	1,288,641	580,372	253,589	454,679
Bank Total	**8,038,955**	**5,390,979**	**1,511,603**	**1,136,372**	7,367,442	5,298,113	1,467,924	601,405
To one year	**2,541,840**	**1,800,419**	**464,401**	**277,020**	2,671,600	1,965,580	514,867	191,153
One to three years	**2,631,532**	**1,689,794**	**512,659**	**429,078**	2,082,340	1,550,186	412,755	119,398
Three to five years	**1,367,169**	**779,228**	**333,076**	**254,865**	1,277,886	836,688	278,382	162,815
Over five years	**1,487,562**	**1,112,307**	**199,846**	**175,408**	1,201,523	864,113	209,371	128,039
Undated	**10,851**	**9,230**	**1,620**	**—**	134,092	81,544	52,547	—
Bank Total	**8,038,955**	**5,390,979**	**1,511,603**	**1,136,372**	7,367,442	5,298,113	1,467,924	601,405

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			
	2008		2007	
	Default Exposure		Default Exposure	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Manufacturing	4,127	3,356	4,896	4,439
Agriculture	488	—	0	—
Mining	37	—	71	—
Construction	6,261	5,819	6,110	6,023
Electric power, gas, water supply	1	—	—	—
Information and communication	502	—	443	—
Transportation	8,007	7,608	9,031	8,911
Wholesale and retail	5,389	3,797	10,659	10,133
Finance and insurance	33,402	31,067	593	1,536
Real estate	7,942	2,910	4,235	2,135
Services	7,750	190	6,532	3,959
Government	—	—	—	—
Individuals	135,539	1,385	86,731	3,038
Others	702	0	866	—
Domestic Total	210,154	56,137	130,173	40,177
Foreign	51,823	51,823	3,384	3,384
Total	261,978	107,960	133,557	43,561

AMOUNTS OF LOAN LOSS RESERVES (GENERAL, SPECIFIC, AND COUNTRY RISK) BEFORE PARTIAL WRITE-OFF

Consolidated

	Millions of yen					
	2008			2007		
As of March 31	Start Amount	Change Amount	End Amount	Start Amount	Change Amount	End Amount
General	101,268	(4,618)	96,650	89,043	12,225	101,268
Specific	85,756	59,923	145,679	83,926	1,829	85,756
Country	9	6	15	5	3	9
Total	187,033	55,311	242,345	172,975	14,058	187,033

Non-consolidated

	Millions of yen					
	2008			2007		
As of March 31	Start Amount	Change Amount	End Amount	Start Amount	Change Amount	End Amount
General	65,434	(7,531)	57,903	60,220	5,214	65,434
Specific	47,912	22,393	70,305	53,637	(5,724)	47,912
Country	9	6	15	5	3	9
Total	113,356	14,867	128,224	113,863	(506)	113,356

Geographic (Consolidated)

Millions of yen

As of March 31	2008 Total	2008 Reserve Amount General	2008 Reserve Amount Specific	2008 Reserve Amount Country	2007 Total	2007 Reserve Amount General	2007 Reserve Amount Specific	2007 Reserve Amount Country
Domestic	**204,215**	**77,567**	**126,648**	**—**	167,650	85,274	82,377	—
Foreign	**38,129**	**19,083**	**19,031**	**15**	19,383	15,994	3,379	9
Total	**242,345**	**96,650**	**145,679**	**15**	187,033	101,268	85,756	9

Geographic (Non-consolidated)

Millions of yen

As of March 31	2008 Total	2008 Reserve Amount General	2008 Reserve Amount Specific	2008 Reserve Amount Country	2007 Total	2007 Reserve Amount General	2007 Reserve Amount Specific	2007 Reserve Amount Country
Domestic	**89,420**	**38,146**	**51,274**	**—**	92,350	47,817	44,533	—
Foreign	**38,803**	**19,756**	**19,031**	**15**	21,005	17,616	3,379	9
Total	**128,224**	**57,903**	**70,305**	**15**	113,356	65,434	47,912	9

Industries

Millions of yen

As of March 31	2008 Reserve Amount Consolidated	2008 Reserve Amount Non-consolidated	2007 Reserve Amount Consolidated	2007 Reserve Amount Non-consolidated
Manufacturing	**4,357**	**3,811**	3,497	3,441
Agriculture	**18**	**18**	6	6
Mining	**21**	**19**	43	28
Construction	**2,527**	**2,276**	2,389	2,368
Electric power, gas, water supply	**249**	**247**	346	346
Information and communication	**490**	**305**	216	216
Transportation	**8,059**	**7,947**	10,905	10,900
Wholesale and retail	**2,473**	**1,812**	5,993	5,868
Finance and insurance	**7,126**	**10,887**	14,838	16,497
Real estate	**16,904**	**15,991**	13,924	14,158
Services	**20,172**	**16,472**	3,510	3,254
Government	**—**	**—**	—	—
Individuals	**108,169**	**3,497**	74,903	2,761
Others	**26,136**	**26,132**	32,510	32,503
Foreign	**38,129**	**38,803**	19,383	21,005
Non-classified	**7,507**	**—**	4,564	—
Total	**242,345**	**128,224**	187,033	113,356

AMOUNT OF WRITE-OFFS

Industries

	Millions of yen			
	FY2007		FY2006	
	Amount of write-off		Amount of write-off	
	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Manufacturing	21	—	234	—
Agriculture	—	—	2	2
Mining	—	—	—	—
Construction	35	—	277	238
Electric power, gas, water supply	—	—	—	—
Information and communication	22	—	—	—
Transportation	14	—	15	0
Wholesale and retail	113	55	115	—
Finance and insurance	—	—	—	—
Real estate	0	0	—	—
Services	94	—	100	—
Government	—	—	—	—
Individuals	24,979	0	1	1
Others	0	—	—	—
Foreign	—	—	—	—
Non-classified	—	—	7	—
Total	25,281	56	754	242

AMOUNT OF EXPOSURES UNDER SA (AFTER CREDIT RISK MITIGATION)

	Millions of yen							
	2008				2007			
	Consolidated		Non-consolidated		Consolidated		Non-consolidated	
As of March 31	Rated	Unrated	Rated	Unrated	Rated	Unrated	Rated	Unrated
0%	79	3,490	—	—	700	5,649	—	—
10%	—	—	—	—	—	2,304	—	—
20%	74,621	78	—	—	244,038	38,050	—	—
35%	—	609,871	—	609,871	—	548,707	—	548,707
50%	235	5,626	—	140	259	16,419	—	—
75%	—	394,070	—	183,528	—	1,171,061	—	—
100%	2,470	213,477	—	989	47	492,354	—	—
150%	—	13,022	—	—	—	1,394	—	—
350%	—	—	—	—	—	—	—	—
Capital Deduction	—	—	—	—	—	—	—	—
Total	77,406	1,239,637	—	794,529	245,046	2,275,943	—	548,707

SPECIALIZED LENDING EXPOSURE UNDER SLOTTING CRITERIA AND EQUITY EXPOSURE UNDER MARKET-BASED SIMPLIFIED METHOD

(1) Specialized lending excluding high-volatility commercial real estate

	Millions of yen	
As of March 31	2008	2007
Risk weight ratio	Amount of Exposure	Amount of Exposure
50%	157,370	54,012
70%	345,552	396,314
90%	54,549	36,646
115%	134,691	121,412
250%	38,521	21,283
0% (Default)	—	—
Total	730,685	629,668

(2) Specialized lending for high-volatility commercial real estate

As of March 31	2008	2007
	Millions of yen	
Risk weight ratio	Amount of Exposure	Amount of Exposure
70%	**13,506**	1,049
95%	**100,682**	67,435
120%	**11,824**	13,267
140%	**227,566**	83,076
250%	**68,437**	54,735
0% (Default)	**4,331**	—
Total	**426,349**	219,564

(3) Equity exposure under Market-Based Simplified Method

	Millions of yen			
	2008		2007	
As of March 31	Amount Consolidated	Amount Non-consolidated	Amount Consolidated	Amount Non-consolidated
300%	**7,941**	**7,787**	386	208
400%	**61,832**	**115,025**	57,195	93,841
Total	**69,773**	**122,812**	57,582	94,050

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	2008					2007				
Credit rating	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)
0	**0.03%**	**45.00%**	**24.44%**	**21,792**	**3,036**	0.03%	45.00%	24.09%	24,608	81
1	**0.03%**	**45.00%**	**15.95%**	**60,468**	**40,869**	0.03%	45.00%	20.70%	26,262	56
2	**0.07%**	**46.34%**	**20.51%**	**485,968**	**75,202**	0.05%	44.94%	19.35%	270,886	39,223
3	**0.12%**	**45.10%**	**30.71%**	**785,411**	**158,146**	0.11%	45.02%	29.51%	743,525	103,768
4	**0.29%**	**46.64%**	**49.58%**	**648,735**	**123,345**	0.25%	45.14%	45.00%	639,749	112,133
5	**0.88%**	**45.51%**	**84.64%**	**325,188**	**50,882**	0.81%	44.68%	75.86%	329,223	75,589
6	**2.58%**	**45.66%**	**127.15%**	**274,087**	**8,682**	2.33%	39.78%	100.05%	212,436	7,957
9A	**13.90%**	**45.17%**	**224.83%**	**162,291**	**13,134**	15.42%	45.10%	236.97%	304,190	10,070
Default	**100.00%**	**45.00%**	**—**	**51,587**	**4,808**	100.00%	43.43%	—	38,352	727

Sovereign (Consolidated)

	Millions of yen (except percentages)									
As of March 31	2008					2007				
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%**	**0.01%**	**1,575,658**	**15,226**	0.00%	45.00%	0.00%	1,523,646	22,849
1	**0.03%**	**45.00%**	**14.50%**	**67,894**	**—**	0.03%	45.00%	9.58%	14,629	—
2	**0.07%**	**45.00%**	**32.27%**	**111,873**	**3,675**	0.05%	45.00%	20.06%	128,112	33,129
3	**0.09%**	**45.00%**	**30.19%**	**110,176**	**5,310**	0.08%	44.93%	29.29%	86,670	4,926
4	**0.20%**	**45.00%**	**47.16%**	**4,514**	**136**	0.37%	45.00%	54.27%	1,167	—
5	**1.31%**	**45.00%**	**83.71%**	**148**	**—**	1.29%	45.00%	132.75%	2	—
6	**2.90%**	**45.00%**	**147.18%**	**1,196**	**374**	3.04%	45.00%	111.23%	12	662
9A	**13.90%**	**45.00%**	**205.13%**	**14,685**	**125**	15.41%	45.00%	243.11%	6,913	8
Default	**100.00%**	**45.00%**	**—**	**56**	**—**	100.00%	45.00%	—	59	—

Bank (Consolidated)

As of March 31	Millions of yen (except percentages)									
	2008					2007				
Credit rating	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)
0	0.03%	45.00%	14.27%	5,908	—	0.03%	45.00%	7.58%	0	—
1	0.03%	45.00%	11.70%	3,904	645	0.03%	45.00%	13.12%	8,544	115
2	0.06%	45.24%	22.52%	232,122	680,169	0.05%	45.23%	20.97%	279,684	317,781
3	0.10%	45.07%	25.26%	213,035	147,319	0.09%	42.92%	24.62%	80,532	49,360
4	0.24%	45.00%	43.26%	20,283	7,041	0.29%	45.00%	61.12%	6,042	12,617
5	0.96%	45.00%	91.32%	3,933	5,332	0.91%	45.00%	112.35%	—	10,304
6	2.17%	45.00%	142.42%	105	1,676	1.91%	45.00%	144.21%	2,625	6,863
9A	13.90%	45.00%	213.40%	20,231	119,781	15.09%	44.37%	221.70%	19,382	124,827
Default	—	—	—	—	—	—	—	—	—	—

Corporate (Non-consolidated)

As of March 31	Millions of yen (except percentages)									
	2008					2007				
Credit rating	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)
0	0.03%	45.00%	24.33%	21,789	3,418	0.03%	45.00%	24.08%	24,588	81
1	0.03%	45.00%	15.96%	60,278	40,869	0.03%	45.00%	20.67%	25,623	56
2	0.07%	46.37%	20.42%	471,511	75,202	0.05%	44.94%	19.38%	266,251	39,223
3	0.12%	45.10%	30.69%	755,178	158,146	0.11%	45.02%	29.60%	718,895	103,768
4	0.29%	46.52%	47.21%	706,505	126,171	0.23%	45.11%	41.54%	820,824	118,040
5	0.87%	45.65%	84.58%	244,135	50,882	0.79%	44.59%	75.84%	237,729	75,589
6	2.70%	45.89%	132.75%	200,832	8,682	2.31%	38.30%	97.38%	163,797	7,957
9A	13.90%	45.19%	221.48%	144,702	13,134	15.42%	45.10%	236.78%	305,312	10,070
Default	100.00%	45.00%	—	48,468	4,808	100.00%	43.35%	—	36,305	727

Sovereign (Non-consolidated)

As of March 31	Millions of yen (except percentages)									
	2008					2007				
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%	0.00%	1,567,847	15,226	0.00%	45.00%	0.00%	1,519,762	22,849
1	0.03%	45.00%	14.50%	67,894	—	0.03%	45.00%	9.58%	14,620	—
2	0.07%	45.00%	32.32%	111,471	3,675	0.05%	45.00%	20.07%	127,903	33,129
3	0.09%	45.00%	30.19%	109,830	5,310	0.08%	44.93%	29.29%	86,435	4,926
4	0.20%	45.00%	47.22%	4,450	136	0.37%	45.00%	54.27%	1,167	—
5	1.31%	45.00%	83.71%	148	—	1.29%	45.00%	132.75%	2	—
6	2.90%	45.00%	147.18%	1,196	374	3.04%	45.00%	111.23%	12	662
9A	13.90%	45.00%	205.13%	14,684	125	15.40%	45.00%	243.11%	6,913	8
Default	100.00%	45.00%	—	56	—	100.00%	45.00%	—	59	—

QUANTITATIVE DISCLOSURE (CONTINUED)

Bank (Non-consolidated)

Millions of yen (except percentages)

As of March 31	2008					2007				
Credit rating	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)	PD	LGD	Risk Weight	EAD (on-balance)	EAD (off-balance)
0	0.03%	45.00%	25.88%	2,158	—	—	—	—	—	—
1	0.03%	45.00%	11.70%	3,904	645	0.03%	45.00%	13.12%	8,544	115
2	0.06%	45.24%	22.60%	221,179	680,169	0.05%	45.23%	20.95%	279,153	317,781
3	0.10%	45.13%	30.87%	38,302	146,778	0.10%	45.78%	25.13%	76,452	40,855
4	0.21%	45.00%	38.40%	44,370	15,752	0.25%	45.00%	49.61%	15,682	15,621
5	0.84%	45.00%	102.83%	—	5,332	0.91%	45.00%	112.35%	—	10,304
6	2.18%	45.00%	145.29%	—	1,676	1.91%	45.00%	144.21%	2,625	6,863
9A	13.90%	45.00%	214.18%	12,416	119,443	15.41%	45.32%	221.09%	19,381	121,801
Default	—	—	—	—	—	—	—	—	—	—

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	2008				2007			
Credit rating	PD	LGD	Risk Weight	Amount	PD	LGD	Risk Weight	Amount
0	0.03%	90.00%	300.00%	9	0.03%	90.00%	300.00%	9
1	—	—	—	—	—	—	—	—
2	0.06%	90.00%	219.95%	6,433	0.05%	90.00%	219.25%	8,904
3	0.15%	90.00%	200.00%	2,605	0.12%	90.00%	200.03%	3,125
4	0.38%	90.00%	284.31%	11,704	0.34%	90.00%	261.28%	8,686
5	0.81%	90.00%	317.06%	2,338	1.17%	90.00%	272.17%	17,756
6	2.90%	90.00%	316.59%	1,140	1.76%	90.00%	428.14%	18
9A	13.90%	90.00%	496.09%	1,737	15.53%	90.00%	508.73%	1,077
Default	100.00%	90.00%	—	1,139	—	—	—	—

(Non-consolidated)

Millions of yen (except percentages)

As of March 31	2008				2007			
Credit rating	PD	LGD	Risk Weight	Amount	PD	LGD	Risk Weight	Amount
0	0.03%	90.00%	300.00%	9	0.03%	90.00%	300.00%	9
1	—	—	—	—	—	—	—	—
2	0.06%	90.00%	219.95%	6,433	0.05%	90.00%	219.25%	8,904
3	0.15%	90.00%	200.00%	2,598	0.12%	90.00%	200.03%	3,125
4	0.23%	90.00%	299.18%	224,878	0.19%	90.00%	297.38%	128,331
5	0.82%	90.00%	319.84%	2,461	1.17%	90.00%	272.17%	17,756
6	2.90%	90.00%	316.59%	1,140	1.76%	90.00%	428.14%	18
9A	13.90%	90.00%	489.86%	11,252	15.53%	90.00%	508.73%	1,077
Default	100.00%	90.00%	—	1,138	—	—	—	—

QUANTITATIVE DISCLOSURE (CONTINUED)

(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	2008							2007				
						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)
Normal	**1.74%**	**54.60%**	**97.67%**	**0**	**14,935**	**—**	**—**	0.65%	37.09%	34.57%	79,014	—
Need caution	**90.60%**	**54.60%**	**61.97%**	**—**	**357**	**—**	**—**	59.53%	37.13%	160.27%	296	—
Default	**100.00%**	**54.60%**	**—**	**306**	**103**	**—**	**—**	100.00%	37.15%	—	1,939	—

Qualified revolving retail exposure

Millions of yen (except percentages)

As of March 31	2008							2007				
						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)
Normal	**4.17%**	**83.22%**	**82.25%**	**201,498**	**70,382**	**2,583,323**	**2.72%**					
Need caution	**91.62%**	**81.95%**	**63.68%**	**6,007**	**—**	**—**	**—**					
Default	**100.00%**	**82.30%**	**—**	**34,632**	**—**	**—**	**—**					

Other retail exposure

Millions of yen (except percentages)

As of March 31	2008							2007				
						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)
Normal	**2.54%**	**61.40%**	**75.02%**	**313,010**	**826,361**	**—**	**—**	1.34%	48.17%	48.68%	190,808	—
Need caution	**85.37%**	**61.69%**	**67.76%**	**4,857**	**3,842**	**—**	**—**	79.88%	46.22%	68.64%	907	—
Default	**100.00%**	**57.39%**	**—**	**87,101**	**1,078**	**—**	**—**	100.00%	50.02%	—	1,364	—

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

	FY2007	FY2006
Results of actual losses (a)	**13,160**	7,476
Expected losses (b)	**8,219**	7,348
Differences ((b) - (a))	**(4,940)**	(127)

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 2006 and 2007 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 2008.

Several companies contributed to the losses in the two fiscal years.

5. CREDIT RISK MITIGATION (CRM)

COVERED AMOUNT OF CRM BY COLLATERAL

FIRB

	Millions of yen			
	2008		2007	
As of March 31	Eligible financial collateral	Other eligible FIRB collateral	Eligible financial collateral	Other eligible FIRB collateral
Corporate	**14,775**	**156,628**	45,285	155,325
Sovereign	**—**	**214**	—	268
Bank	**—**	**570**	—	—
Total	**14,775**	**157,413**	45,285	155,593

COVERED AMOUNT OF CRM BY GUARANTEE OR CREDIT DERIVATIVES

	Millions of yen			
	2008		2007	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
SA Exposures	**—**	**—**	—	—
IRB Exposures	**263,518**	**263,518**	161,243	161,243
Corporate	**81,997**	**81,997**	45,026	45,026
Sovereign	**139,312**	**139,312**	98,717	98,717
Bank	**42,208**	**42,208**	17,500	17,500
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 (as of March 31, 2008)

Consolidated ¥445,515 million

Non-consolidated ¥423,340 million

(3) EAD before CRM

	Millions of yen			
	2008		2007	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
FX-related	**653,170**	**655,120**	204,817	205,246
Interest-related	**118,272**	**119,387**	107,768	109,171
Equity-related	**39,573**	**115**	57,105	19,380
Commodity-related	**—**	**—**	—	—
Credit derivatives	**368,371**	**361,749**	127,179	127,254
Others	**—**	**—**	140,352	140,352
Total	**1,179,387**	**1,136,372**	637,223	601,405

(4) Net of: (2) + amount of gross add-on - (3)

Zero.

(5) Amount covered collateral

Zero.

(6) EAD after CRM

Refer to (3) (No change from EAD before CRM)

(7) Nominal amount of credit derivatives which have counterparty risk

	Millions of yen			
As of March 31	**2008**		2007	
Nominal amount	Protection-buy	Protection-sell	Protection-buy	Protection-sell
Single name	**890,806**	**986,735**	1,031,826	1,018,677
Multi name	**550,778**	**497,166**	43,600	6,800

(8) Nominal amount of credit derivatives which cover exposures by CRM

¥11,359 million for both consolidated and non-consolidated (as of March 31, 2008)

7. SECURITIZATION

SECURITIZATION EXPOSURE ORIGINATED BY THE BANK GROUP

(1) Amount of original assets

Securitization by transfer of assets

	Millions of yen	
As of March 31	**2008**	2007
Type of original assets	Amount of original asset	Amount of original asset
Residential mortgages	**514,373**	645,173
Consumer loans	**142,168**	144,089
Commercial real estate loans	**165,209**	—
Corporate loans	**75,981**	353,967
Others	**22,870**	—
Total	**920,603**	1,143,230

Synthetic Securitization

	Millions of yen	
As of March 31	**2008**	2007
Type of original assets	Amount of original asset	Amount of original asset
Corporate loans	**30,100**	—
Total	**30,100**	—

Notes: Includes originally securitized assets originated by the Bank Group in fiscal year 2007, even though the Bank Group had no exposure to these particular assets as of March 31, 2008.

QUANTITATIVE DISCLOSURE (CONTINUED)

(2) Amount of default exposure including original assets

Securitization by transfer of assets

As of March 31	Millions of yen 2008	2007
Type of original assets	Amount of Default	Amount of Default
Residential mortgages	**7,928**	11,379
Consumer loans	**—**	305
Commercial real estate loans	**—**	—
Corporate loans	**32,038**	34,039
Others	**—**	—
Total	**39,966**	45,724

Synthetic Securitization

As of March 31	Millions of yen 2008	2007
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

As of March 31	Millions of yen 2008	2007
Type of original assets	Amount of Exposure	Amount of Exposure
Residential mortgages	**8**	71,648
Consumer loans	**120,432**	77,330
Corporate loans	**59,538**	77,156
Others	**1,831**	1,786
Total	**181,810**	227,922

Synthetic Securitization

As of March 31	Millions of yen 2008	2007
Type of original assets	Amount of Exposure	Amount of Exposure
Corporate loans	**29,100**	—
Total	**29,100**	—

(4) Amount of securitization exposure and required capital the Bank Group has by risk weight ratio

Securitization by transfer of assets

As of March 31	Millions of yen 2008		2007	
Band of risk weight ratio	Amount	Required Capital amount	Amount	Required Capital amount
To 12%	**32,047**	**193**	52,287	292
Over 12% to 20%	**—**	**—**	—	—
Over 20% to 50%	**10,341**	**489**	—	—
Over 50% to 75%	**34,571**	**2,222**	—	—
Over 75% to 100%	**45,010**	**4,388**	—	—
Over 100% to 250%	**45,508**	**7,288**	—	—
Over 250% to 425%	**14,331**	**4,258**	—	—
Over 425%	**—**	**—**	—	—
Total	**181,810**	**18,841**	52,287	292

Synthetic Securitization

As of March 31	Millions of yen 2008		2007	
Band of risk weight ratio	Amount	Required Capital amount	Amount	Required Capital amount
Over 20% to 50%	**29,100**	**563**	—	—
Total	**29,100**	**563**	—	—

(5) Amount of increase of capital by securitization (to be deducted from Tier I capital)

As of March 31	Millions of yen 2008		2007	
Type of original assets	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Residential mortgages	**9,983**	**9,983**	10,242	10,242
Consumer loans, installment receivables	**1,157**	**84**	2,547	370
Commercial real estate loans	**442**	**442**	—	—
Others	**3,770**	**3,770**	3,770	3,770
Total	**15,354**	**14,281**	16,561	14,384

(6) Amount of securitization exposure which should be deducted from capital under the Accord Article 247

As of March 31	Millions of yen 2008		2007	
Type of original assets	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Residential mortgages	**1,847**	**1,847**	15,348	15,348
Consumer loans, installment receivables	**1,747**	**1,747**	—	—
Commercial real estate loans	**250**	**250**	—	—
Others	**2,489**	**2,489**	1,786	1,786
Total	**6,334**	**6,334**	17,135	17,135

(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.

None.

(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

As of March 31	Millions of yen 2008	2007
Type of original assets	Amount of Exposure	Amount of Exposure
Residential mortgages	**47,346**	75,155
Consumer loans	**23,753**	19,114
Commercial real estate loans	**226,499**	20,506
Corporate loans	**165,859**	172,075
Others	**187,074**	263,877
Total	**650,534**	550,728

(2) Amount of securitization exposure and required capital for the Bank Group by risk weight ratio.

As of March 31	2008		2007	
	Millions of yen			
Band of risk weight ratio	Amount	Required Capital amount	Amount	Required Capital amount
To 12%	**274,760**	**2,239**	191,941	1,211
Over 12% to 20%	**88,621**	**1,193**	104,137	1,311
Over 20% to 50%	**12,523**	**490**	170,032	4,925
Over 50% to 75%	**48,757**	**2,495**	23,716	1,423
Over 75% to 100%	**753**	**63**	1,668	133
Over 100% to 250%	**2,833**	**600**	5,775	1,155
Over 250% to 425%	**46,493**	**13,720**	1,831	622
Over 425%	**36**	**20**	—	—
Total	**474,780**	**20,824**	499,104	10,782

(3) Amount of securitization exposure which should be deducted from capital under the Accord Article 247.

As of March 31	2008		2007	
	Millions of yen			
Type of original assets	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Residential mortgages	**15,872**	**15,872**	11,162	11,162
Consumer loans, installment receivables	**1,377**	**1,377**	2,459	3,041
Commercial real estate loans	**190**	**190**	3,392	3,392
Corporate loans	**18,890**	**18,890**	8,760	8,760
Others	**18,990**	**18,990**	25,848	25,848
Total	**55,321**	**55,321**	51,624	52,206

(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 2007 AND 2008 AND THE HIGH, MEAN AND LOW VaR

	Millions of yen			
	2008		2007	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
VaR at term end	**4,206**	**3,980**	1,980	1,847
VaR through this term				
High	**5,131**	**4,392**	2,339	2,076
Mean	**2,688**	**2,352**	1,665	1,427
Low	**1,517**	**1,213**	909	770

Based on VaR back-testing for fiscal years 2007 and 2006, the trading portfolio experienced no losses that exceeded the specified VaR threshold.

9. EQUITY EXPOSURE IN BANKING BOOK

BOOK VALUE AND FAIR VALUE

(1) Listed Equity Exposure ¥7,941 million (as of March 31, 2008)

(2) Unlisted Equity Exposure ¥50,191 million (as of March 31, 2008)

GAIN OR LOSS ON SALE OR DEPRECIATION OF EQUITY EXPOSURE

	Millions of yen			
	FY2007		FY2006	
	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Gain/Loss on sale	**4,241**	**1,696**	7,257	6,337
Loss of depreciation	**3,112**	**2,231**	909	824

UNREALIZED GAIN OR LOSS WHICH IS RECOGNIZED ON BALANCE SHEET AND NOT RECOGNIZED ON PROFIT AND LOSS STATEMENT

Consolidated ¥(3,157) million (as of March 31, 2008)

Non-consolidated ¥(3,112) million (as of March 31, 2008)

UNREALIZED GAIN OR LOSS WHICH IS NOT RECOGNIZED BOTH ON BALANCE SHEET AND ON PROFIT AND LOSS STATEMENT

	Millions of yen			
	2008		2007	
	Consolidated	Non-consolidated	Consolidated	Non-consolidated
Equity to subsidiaries and affiliates	**—**	**(25)**	—	6,622

AMOUNT OF EQUITY EXPOSURE UNDER GRANDFATHERING RULE SUBJECT TO THE ACCORD SUPPLEMENTARY PROVISION 13

¥18,951 million (as of March 31, 2008)

10. AMOUNT OF REGARDED EXPOSURE UNDER THE ACCORD ARTICLE 167

¥124,331 million (as of March 31, 2008)

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			
	2008		2007	
As of March 31	Consolidated	Non-consolidated	Consolidated	Non-consolidated
JPY	**(35.5)**	**(16.9)**	(31.8)	(11.4)
USD	**+1.2**	**+1.2**	+1.8	+1.8
Others	**+0.6**	**+0.6**	+0.4	+0.4
Total	**(33.5)**	**(14.9)**	(29.5)	(9.1)

CORPORATE INFORMATION

SHINSEI BANK GROUP

AS OF MARCH 31, 2008

As of March 31, 2008, the Shinsei Bank Group consisted of Shinsei Bank, Limited, 204 subsidiaries (comprising 104 consolidated companies including APLUS Co., Ltd. and Showa Leasing Co., Ltd. and 100 unconsolidated subsidiaries) and 30 affiliated companies. 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.
- 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, 2008

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	¥ 250	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	7,000	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	40,000	(2004.9)	74.0	—	74.0
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	—
Showa Auto Rental & Leasing Co., Ltd.	Tokyo, Japan	Leasing	300	(2005.3)	100.0	—	100.0
SHINKI Co., Ltd.	Tokyo, Japan	Financing for individuals and small businesses	16,709	(2007.12)	67.7	67.7	—
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	$795.25 million	2006.2	100.0	100.0	—
Shinsei Finance II (Cayman), Limited	Grand Cayman, Cayman Islands	Finance	$715.35 million	2006.3	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, 2008

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

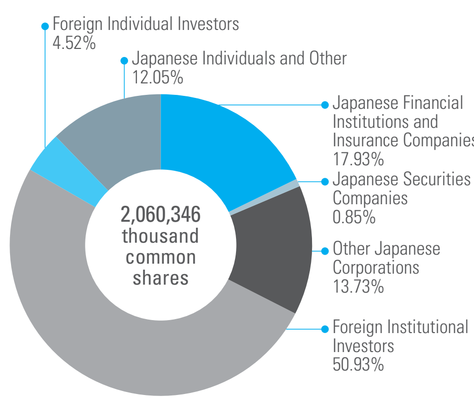
* Figure includes number of preferred shares outstanding

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 (Treasury shares)	96,422	4.67
6	J. CHRISTOPHER FLOWERS	92,670	4.49
7	JP MORGAN CHASE BANK 380055	82,367	3.99
8	THE CHASE MANHATTAN BANK, N. A. LONDON	80,058	3.88
9	STATE STREET BANK AND TRUST COMPANY	78,015	3.78
10	THE MASTER TRUST BANK OF JAPAN LTD. (TRUST ACCOUNT)	34,447	1.67
11	JAPAN TRUSTEE SERVICES BANK, LTD. (TRUST ACCOUNT)	29,795	1.44
	Total	2,060,346	100.00

(1) As of March 31, 2008, a group of investors, including affiliates of J.C. Flowers & Co. LLC., holds 640,619,385 common shares or 32.6% of Shinsei's outstanding common shares, excluding treasury shares.
(2) As of March 31, 2008, 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, 2006, 2007 AND 2008

	2006	2007	**2008**
Consolidated			
Number of Employees	5,407	5,364	**5,245**
Non-Consolidated			
Number of Employees	2,094	2,248	**2,394**
Male	1,135	1,210	**1,300**
Female	959	1,038	**1,094**
Average age	37 years 8 months	38 years 1 month	**38 years 3 months**
Average years of service	10 years 2 months	9 years 9 months	**9 years 1 month**
Average monthly salary	492 thousand yen	501 thousand yen	**505 thousand yen**

"Average monthly salary" includes overtime wages but excludes annual bonus.

DOMESTIC OUTLETS:

39 outlets, including 35 Shinsei Financial Centers (30 Branches and 5 Annexes),
2 Platinum Centers (with Annexes) and 2 BankSpots (2 with other Annexes)

Name of 30 Branches and 5 Annexes

- Head Office (Tokyo)
  - Ginza Annex
  - Nihombashi Annex
- Sapporo Branch
- Sendai Branch
- Kanazawa Branch
- Omiya Branch
- Kashiwa Branch
- LaLaport Branch
- Tokyo Branch
- Ikebukuro Branch
- Ueno Branch
- Kichijoji Branch
- Shinjuku Branch
- Shiodome SIO-SITE Branch
- Roppongi Hills Branch
  - Keyakizakadori Annex
- Shibuya Branch
  - Omotesando Hills Annex
- Hiroo Branch
- Meguro Branch
- Futakotamagawa Branch
- Hachioji Branch
- Yokohama Branch
- Fujisawa Branch
- Nagoya Branch
- Kyoto Branch
- Osaka Branch
- Umeda Branch
  - Hankyu-Umeda Annex
- Namba Branch
- Kobe Branch
- Hiroshima Branch
- Takamatsu Branch
- Fukuoka Branch

OVERSEAS BRANCH:

Grand Cayman Branch

DOMESTIC SUB-BRANCHES (ATM ONLY):

Tokyo Metro stations	49 locations
Keikyu Station Bank	34 locations
Other train stations	10 locations
Other	88 locations

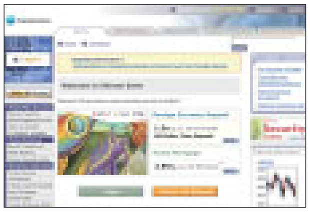
ACCESS TO SEVEN BANK, LTD. ATMS

Access to Seven Bank, Ltd. ATMs	12,412 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.

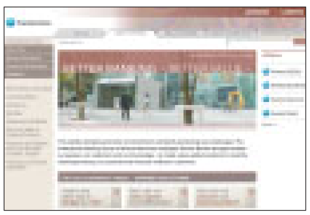
RETAIL



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/

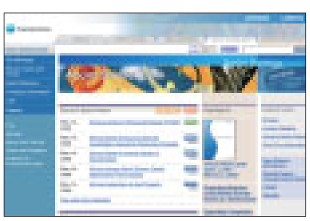
Our Institutional Banking website provides information for our institutional customers on our products, services and solutions. It also contains details of our branches and affiliates.

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.

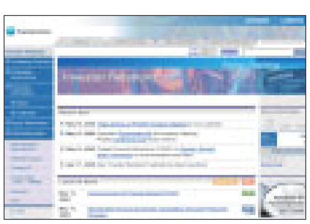
ABOUT SHINSEI BANK



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 Division
Shinsei Bank, Limited
1-8, Uchisaiwaicho 2-chome, Chiyoda-ku, Tokyo 100-8501, Japan
Tel: 81-3-5511-8303 Fax: 81-3-5511-5505 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 FAX: 81-3-5511-5505
URL: http://www.shinseibank.com